RENAL CARE GROUP INC
Form 10-Q
November 12, 2003

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UNITED STATES
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 September 30, 2003

OR

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 No. 0-27640

RENAL CARE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**62-1622383**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2525 West End Avenue, Suite 600, Nashville, Tennessee 37203
(Address of principal executive offices) (Zip code)

Registrant s telephone number, including area code: **(615) 345-5500**

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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes x No o

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

Class	Outstanding at November 10, 2003

Common Stock, $.01 par value	48,731,871

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Note: Item 3 of Part I, and Items 1, 2, 3, 4 and 5 of Part II are omitted because they are not applicable

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RENAL CARE GROUP, INC.
Condensed Consolidated Balance Sheets
(in thousands, except per share data)

	December 31, 2002	September 30, 2003
		(unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,359	$ 121,128
Accounts receivable, net	152,440	157,218
Inventories	23,336	14,670
Prepaid expenses and other current assets	19,486	22,350
Deferred income taxes	12,240	4,290
Total current assets	245,861	319,656
Property, plant and equipment, net	202,972	214,858
Intangible assets, net	12,110	13,567
Other assets	3,514	11,543
Goodwill	275,666	279,542
Total assets	$ 740,123	$ 839,166
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 101,213	$ 99,187
Due to third-party payors	32,611	43,939
Income taxes payable	1,423	6,176
Current portion of long-term debt	133	413
Total current liabilities	135,380	149,715
Long-term debt, net of current portion	10,161	2,673
Other long-term liabilities		4,677
Deferred income taxes	19,288	19,288
Minority interest	31,406	34,036
Total liabilities	196,235	210,389
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized, none issued		
Common stock, $0.01 par value, 90,000 shares authorized, 51,176 and 52,882 shares issued at December 31, 2002 and September 30, 2003, respectively	512	529
Treasury stock, 2,983 and 3,998 shares of common stock at December 31, 2002 and September 30, 2003, respectively	(93,953)	(129,195)
Additional paid-in capital	309,355	355,359
Retained earnings	327,974	402,084

Total stockholders equity	543,888	628,777
Total liabilities and stockholders equity	$740,123	$ 839,166

See accompanying notes to condensed consolidated financial statements.

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RENAL CARE GROUP, INC.
Condensed Consolidated Income Statements
(in thousands, except per share data)
(unaudited)

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2003
Net revenue	$231,542	$253,835	$660,389	$743,039
Operating costs and expenses:				
Patient care costs	151,722	164,962	432,184	482,437
General and administrative expenses	19,686	21,225	56,033	68,700
Provision for doubtful accounts	6,008	6,556	17,228	19,436
Depreciation and amortization	10,402	11,365	29,697	33,242
Total operating costs and expenses	187,818	204,108	535,142	603,815
Income from operations	43,724	49,727	125,247	139,224
Interest expense, net	569	76	880	526
Income before minority interest and income taxes	43,155	49,651	124,367	138,698
Minority interest	5,364	6,837	15,381	19,174
Income before income taxes	37,791	42,814	108,986	119,524
Provision for income taxes	14,361	16,269	41,421	45,414
Net income	$ 23,430	$ 26,545	$ 67,565	$ 74,110
Net income per share:				
Basic	$ 0.48	$ 0.54	$ 1.37	$ 1.53
Diluted	$ 0.46	$ 0.53	$ 1.32	$ 1.48
Weighted average shares outstanding:				
Basic	48,672	49,022	49,190	48,580
Diluted	50,518	50,417	51,036	49,926

See accompanying notes to condensed consolidated financial statements.

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RENAL CARE GROUP, INC.
Condensed Consolidated Statements Of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2002	2003
OPERATING ACTIVITIES		
Net income	$ 67,565	$ 74,110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,697	33,242
Loss on disposal of property and equipment		443
Income applicable to minority interest	15,381	19,174
Distributions to minority shareholders	(5,461)	(16,819)
Deferred income taxes		7,950
Changes in operating assets and liabilities, net of effects from acquisitions	20,183	30,163
Net cash provided by operating activities	127,365	148,263
INVESTING ACTIVITIES		
Purchases of property and equipment	(49,413)	(44,043)
Cash paid for acquisitions	(19,904)	(14,154)
Change in other assets	(843)	(1,968)
Net cash used in investing activities	(70,160)	(60,165)
FINANCING ACTIVITIES		
Net payments of debt	(1,574)	(7,208)
Repurchase of treasury shares	(62,696)	(35,242)
Net proceeds from issuance of common stock	16,548	37,121
Investment by joint venture partner	2,896	
Net cash used in financing activities	(44,826)	(5,329)
Increase in cash and cash equivalents	12,379	82,769
Cash and cash equivalents at beginning of period	27,423	38,359
Cash and cash equivalents at end of period	$ 39,802	$ 121,128

See accompanying notes to condensed consolidated financial statements.

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RENAL CARE GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2003
(dollars in thousands, except per share data)
(unaudited)

1. Basis of Presentation

Overview

Renal Care Group, Inc. provides dialysis services to patients with chronic kidney failure, also known as end-stage renal disease (ESRD). As of September 30, 2003, the Company provided dialysis and ancillary services to more than 21,300 patients through 281 owned outpatient dialysis centers in 27 states, in addition to providing acute dialysis services at approximately 130 hospitals.

Renal Care Group s net revenue has been derived primarily from the following sources:

- outpatient hemodialysis services;
- ancillary services associated with dialysis, primarily the administration of erythropoietin (also known as Epogen® or EPO) and other drugs;
- home dialysis services;
- inpatient hemodialysis services provided to acute care hospitals and skilled nursing facilities;
- laboratory services; and
- management contracts with hospital-based and medical university dialysis programs.

Most patients with end-stage renal disease receive three dialysis treatments each week in an outpatient setting. Reimbursement for these services is provided primarily by the Medicare ESRD program based on rates established by the Centers for Medicare and Medicaid Services (CMS). For the nine months ended September 30, 2003, approximately 55% of the Company s net revenue was derived from reimbursement under the Medicare and Medicaid programs. Medicare reimbursement is subject to rate and other legislative changes by Congress and periodic changes in regulations, including changes that may reduce payments under the ESRD program. Neither Congress nor CMS approved an increase in the composite rate for either 2002 or 2003.

The Medicare composite rate applies to a designated group of outpatient dialysis services, including the dialysis treatment, supplies used for the treatment, certain laboratory tests and medications, and most of the home dialysis services provided by Renal Care Group. The Company receives separate reimbursement outside the composite rate for some other services, drugs (including specific drugs such as EPO) and some physician-ordered tests (including some laboratory tests) provided to dialysis patients.

If a patient has private health insurance, that patient s treatment is typically reimbursed at rates significantly higher than those paid by Medicare during the first 30 months of care. After that period Medicare becomes the primary payor. Reimbursement for dialysis services provided pursuant to a hospital contract is

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negotiated with the individual hospital and is usually higher than Medicare rates. Because dialysis is a life-sustaining therapy to treat a chronic disease, utilization is predictable and is not subject to seasonal fluctuations.

Renal Care Group derives a significant portion of its net revenue and net income from the administration of EPO. EPO is manufactured by a single company, Amgen Inc. In April 2002, Amgen implemented its third EPO price increase of 3.9% in as many years. Because the Company was already under contract with Amgen through 2002, this price increase did not affect its results of operations during 2002. Key components of the 2002 pricing formula were maintained in the Company s 2003 contract with Amgen. Therefore, while the 2002 price increase has had and will continue to have an adverse affect on the Company s 2003 results of operations, the Company believes it has been able to mitigate approximately 80% of the increase.

Interim Financial Statements

In the opinion of management, the information contained in this quarterly report on Form 10-Q reflects all adjustments necessary to make the results of operations for the interim periods a fair representation of such operations. All such adjustments are of a normal recurring nature. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole. The Company suggests that persons read these financial statements in conjunction with the consolidated financial statements and the related notes thereto included in the Company s Form 10-K, as filed with the SEC on March 18, 2003.

2. Net Income per Share

The following table sets forth the computation of basic and diluted net income per share (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2003**	**2002**	**2003**
Numerator:				
Numerator for basic and diluted net income per share net income	$23,430	$26,545	$67,565	$74,110
Denominator:				
Denominator for basic net income per share weighted-average shares	48,672	49,022	49,190	48,580
Effect of dilutive securities:				
Stock options	1,749	1,395	1,749	1,346
Warrants	97		97	
Denominator for diluted net income per share adjusted weighted-average shares and assumed conversions	50,518	50,417	51,036	49,926
Net income per share:				
Basic	$ 0.48	$ 0.54	$ 1.37	$ 1.53
Diluted	$ 0.46	$ 0.53	$ 1.32	$ 1.48

3. Stock-Based Compensation

The Company accounts for stock-based compensation to employees and directors using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related Interpretations. In accordance with that opinion, the Company recognizes no compensation expense when it grants fixed options to employees and directors, because the exercise price of

the stock options equals or exceeds the market price of the underlying stock on the dates of grant. Option grants to medical directors and non-vested stock grants are expensed over their vesting periods.

The following table presents the pro forma effect on net income and net income per share as if the Company had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation,* (SFAS No. 123) to stock-based compensation to employees and directors:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Net income, as reported	$23,430	$26,545	$67,565	$74,110
Add: stock-based compensation expense, net of related tax effects, included in the determination of net income as reported	95	40	285	384
Less: stock-based compensation expense, net of related tax effects, determined by the fair value-based method	(2,098)	(2,223)	(5,822)	(6,986)
Pro forma net income	$21,427	$24,362	$62,028	$67,508
Net income per share:				
Basic, as reported	$ 0.48	$ 0.54	$ 1.37	$ 1.53
Basic, pro forma	$ 0.44	$ 0.50	$ 1.26	$ 1.39
Diluted, as reported	$ 0.46	$ 0.53	$ 1.32	$ 1.48
Diluted, pro forma	$ 0.42	$ 0.48	$ 1.22	$ 1.35

The effects of applying SFAS No. 123 for providing pro forma disclosures are not likely to be representative of the effects on reported net income for future periods.

4. Contingencies

On August 30, 2000, 19 patients were hospitalized and one patient died shortly after becoming ill while receiving treatment at one of the Company s dialysis centers in Youngstown, Ohio. One of the 19 hospitalized patients also died some time later. In March 2001, one of the affected patients sued the Company in Mahoning County, Ohio for injuries related to the August 30, 2000 incident. Additional suits have been filed, and as of September 30, 2003, a total of eight suits were pending. The suits allege negligence, medical malpractice and product liability. Additional defendants are named in each of the suits. Additional defendants in some of the suits include the water system vendors who installed and maintained the water system in the dialysis center. Renal Care Group has denied the allegations and has filed cross-claims against the water system vendors. Renal Care Group intends to pursue these cross-claims vigorously. Management believes that Renal Care Group s insurance should be adequate to cover these illnesses and does not anticipate a material adverse effect on the Company s consolidated financial position or results of operations.

The Company is involved in other litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the Company believes these matters will be resolved without material adverse effect on the Company s consolidated financial position or results of operations.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations governing the Medicare and Medicaid programs. The Company is not aware of any pending or threatened investigations involving allegations of potential noncompliance with applicable laws or regulations. While no regulatory

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inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, and non-compliance or alleged non-compliance could result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Company generally engages practicing board-certified or board-eligible nephrologists to serve as medical directors for its centers. Medical directors are responsible for the administration and monitoring of the Company s patient care policies, including patient education, administration of dialysis treatment, development programs and assessment of all patients. The Company pays medical director fees that are consistent with the fair market value of the required supervisory services. Such medical director agreements typically have a term of seven years with a three-year renewal option.

5. Defined Benefit Plan

Effective January 29, 2003, the Company implemented a retirement benefit plan for Sam A. Brooks, the Company s former Chairman, Chief Executive Officer and President. Mr. Brooks died March 20, 2003. The plan provides that the Company will make 120 monthly payments of $54 each to Mr. Brook s beneficiary, beginning in April 2003. As a result, the Company recorded a $5,350 charge representing the pre-tax net present value of such payments during the first quarter of 2003. As of September 30, 2003 the Company has accrued liabilities totaling $5,231 related to this defined benefit plan.

6. Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after September 15, 2003. The Company is in the process of determining the impact of FIN 46 and has not completed its evaluation.

Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (SFAS No. 150), was issued by the FASB in May 2003. The Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement was initially effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. However, on October 29, 2003, the FASB voted to defer for an indefinite period the application of the guidance of SFAS No. 150, to noncontrolling interests (noncontrolling interests) that are classified as equity in the financial statements of the subsidiary but would be classified as a liability in the parent s financial statements. The Company is in the process of determining the impact of SFAS No. 150 and with the exception of noncontrolling interests this pronouncement has no impact on the consolidated financial statements. The Company will monitor conclusions reached by the FASB and the related impact to noncontrolling interests as they are finalized.

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

Results of Operations

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2003

Net Revenue. Net revenue increased from $231.5 million for the three months ended September 30, 2002 to $253.8 million for the three months ended September 30, 2003, an increase of $22.3 million, or 9.6%. This increase resulted primarily from a 6.4% increase in the number of treatments performed by Renal Care Group from 773,257 in the 2002 period to 822,551 in the 2003 period. This growth in treatments is the result of the acquisition and development of various dialysis facilities and a 5.0% increase in same-market treatments for the 2003 period over the 2002 period. In addition, average net revenue per dialysis treatment increased 3.4% from $298 in 2002 to $308 in 2003. The increase in revenue per treatment was largely due to a rate increase to private payors that Renal Care Group implemented in the fourth quarter of 2002 and, to a lesser extent, an increase in utilization of certain ancillary drugs. This increase was partially offset by pricing pressure from a number of commercial insurers and managed care organizations. Management believes that the Company will face reductions in reimbursement rates from state Medicaid programs, as well as reductions in rates from commercial insurers and managed care organizations or resistance to rate increases from these payors for the remainder of 2003 and in 2004. These reductions will likely result in a reduction in revenue per treatment in 2004.

Patient Care Costs. Patient care costs consist of costs directly related to the care of patients, including direct labor, drugs and other medical supplies, and operational costs of facilities. Patient care costs increased from $151.7 million for the three months ended September 30, 2002 to $165.0 million for the three months ended September 30, 2003, an increase of 8.7%. This increase was due principally to the increase in the number of treatments performed during the period, which was reflected in corresponding increases in the use of labor, drugs and supplies. Patient care costs as a percentage of net revenue decreased from 65.5% in the 2002 period to 65.0% in the 2003 period. Patient care costs per treatment increased 2.6% from $196 in the 2002 period to $201 in the 2003 period. The increase in patient care costs per treatment was due to increases in the price of EPO, labor costs, the cost of insurance, and the utilization of certain ancillary drugs. Management believes that the Company will continue to face increases in the cost of labor and insurance for the remainder of 2003.

General and Administrative Expenses. General and administrative expenses include corporate office costs and other costs not directly related to the care of patients, including facility administration, accounting, billing and information systems. General and administrative expenses increased from $19.7 million for the three months ended September 30, 2002 to $21.2 million for the three months ended September 30, 2003, an increase of 7.8%. General and administrative expenses as a percentage of net revenue decreased slightly from 8.5% in the 2002 period to 8.4% in the 2003 period.

Provision for Doubtful Accounts. Management determines the provision for doubtful accounts as a function of payor mix, billing practices and other factors. Renal Care Group reserves for doubtful accounts in the period in which the revenue is recognized based on management s estimate of the net collectibility of the accounts receivable. Management estimates the net collectibility of accounts receivable based upon a variety of factors. These factors include, but are not limited to, analyzing revenues generated from payor sources, performing subsequent collection testing and regularly reviewing detailed accounts receivable agings. Management makes adjustments to the allowance for doubtful accounts as necessary based on the results of management s reviews of the net collectibility of accounts receivable. The provision for doubtful accounts increased from $6.0 million for the three months ended September 30, 2002 to $6.6 million for the three months

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ended September 30, 2003, an increase of $548,000, or 9.1%. The provision for doubtful accounts as a percentage of net revenue remained consistent at 2.6% in both the 2002 and 2003 periods.

Depreciation and Amortization. Depreciation and amortization increased from $10.4 million for the three months ended September 30, 2002 to $11.4 million for the three months ended September 30, 2003, an increase of 9.3%. This increase was due to openings of new dialysis facilities, normal replacement costs of dialysis facilities and equipment, purchases of information systems, and the amortization of separately identifiable intangible assets associated with acquisitions.

Income from Operations. Income from operations increased from $43.7 million for the three months ended September 30, 2002 to $49.7 million for the three months ended September 30, 2003, an increase of 13.7%. Income from operations as a percentage of net revenue increased from 18.9% in the 2002 period to 19.6% in the 2003 period as a result of the operational improvements discussed above.

Interest Expense, Net. Interest expense decreased from $569,000 for the three months ended September 30, 2002 to $76,000 for the three months ended September 30, 2003. Net interest expense in the 2002 period resulted principally from expensing loan origination costs associated with the Company s line of credit, which was substantially amended in the third quarter of 2002, and interest associated with higher borrowings during the three months ended September 30, 2002 to fund repurchases of Company common stock.

Minority Interest. Minority interest represents the proportionate equity interest of other partners in the Company s consolidated entities that are not wholly-owned, where the financial results of the entities are included in the Company s consolidated results. Minority interest as a percentage of net revenue increased to 2.7% in the 2003 period from 2.3% in the 2002 period. This increase was the result of continued financial improvements in Renal Care Group s larger joint ventures, primarily those in Ohio, Oregon and Washington, as well as an increase in the number of facilities operated as joint ventures.

Provision for Income Taxes. The provision for income taxes increased from $14.4 million for the three months ended September 30, 2002 to $16.3 million for the three months ended September 30, 2003, an increase of $1.9 million or 13.3%. The increase was a result of the increase in pre-tax earnings discussed above. The Company s effective tax rate of the Company remained consistent at 38.0% for the 2002 and 2003 periods.

Net Income. Net income increased from $23.4 million for the three months ended September 30, 2002 to $26.5 million for the three months ended September 30, 2003, an increase of $3.1 million or 13.3%. The increase was a result of the items discussed above.

Nine months Ended September 30, 2002 Compared to Nine months Ended September 30, 2003

Net Revenue. Net revenue increased from $660.4 million for the nine months ended September 30, 2002 to $743.0 million for the nine months ended September 30, 2003, an increase of $82.7 million, or 12.5%. This increase resulted primarily from an 8.5% increase in the number of treatments from 2,227,230 in 2002 to 2,415,805 in 2003. This growth in treatments is the result of the acquisition and development of various dialysis facilities and a 5.3% increase in same-market treatments for the 2003 over the 2002 period. In addition, average net revenue per dialysis treatment increased 4.4% from $294 in 2002 to $307 in 2003. The increase in revenue per treatment was primarily due to the implementation of a rate increase to private payors in the fourth quarter of 2002. This increase was partially offset by pricing pressure from a number of commercial insurers and managed care organizations. Management believes that the Company will face reductions in reimbursement rates from state Medicaid programs, as well as reductions in rates from commercial insurers and managed care organizations or resistance to rate increases from these payors for the remainder of 2003 and in 2004. These reductions will likely result in a reduction in revenue per treatment in 2004.

Patient Care Costs. Patient care costs consist of costs directly related to the care of patients, including direct labor, drugs and other medical supplies, and operational costs of facilities. Patient care costs increased from $432.2 million for the nine months ended September 30, 2002 to $482.4 million for the nine months ended September 30, 2003, an increase of 11.6%. This increase was due principally to the increase in the number of treatments performed during the period, which was reflected in corresponding increases in the use of labor, drugs and supplies. Patient care costs as a percentage of net revenue decreased from 65.4% in 2002 to 64.9% in 2003. Patient care costs per treatment increased 3.1% from $194 in 2002 to $200 in 2003. The increase in patient care costs per treatment was due to increases in the price of EPO, labor costs, the cost of insurance, and the utilization of certain ancillary drugs. Management believes that the Company will continue to face increases in the cost of labor and insurance for the remainder of the 2003 period.

General and Administrative Expenses. General and administrative expenses increased from $56.0 million for the nine months ended September 30, 2002 to $68.7 million for the nine months ended September 30, 2003, an increase of 22.6%. This increase was due primarily to a $5.4 million charge recorded in the first quarter of 2003 related to a retirement benefit plan for the Company s former Chairman, Chief Executive Officer and President that was adopted in January 2003. General and administrative expenses as a percentage of revenue increased from 8.5% in the 2002 period to 9.2% in the 2003 period. The retirement package charge accounts for substantially all of the increase in general and administrative expenses as a percentage of net revenue.

Provision for Doubtful Accounts. Management determines the provision for doubtful accounts as a function of payor mix, billing practices and other factors. Renal Care Group reserves for doubtful accounts in the period in which the revenue is recognized based on management s estimate of the net collectibility of the accounts receivable. Management estimates the net collectibility of accounts receivable based upon a variety of factors. These factors include, but are not limited to, analyzing revenues generated from payor sources, performing subsequent collection testing and regularly reviewing detailed accounts receivable agings. Management makes adjustments to the allowance for doubtful accounts as necessary based on the results of management s reviews of the net collectibility of accounts receivable. The provision for doubtful accounts increased from $17.2 million for the nine months ended September 30, 2002 to $19.4 million for the nine months ended September 30, 2003, an increase of $2.2 million, or 12.8%. The provision for doubtful accounts as a percentage of net revenue remained consistent at 2.6% in both the 2002 and 2003 periods.

Depreciation and Amortization. Depreciation and amortization increased from $29.7 million for the nine months ended September 30, 2002 to $33.2 million for the nine months ended September 30, 2003, an increase of $3.5 million, or 11.9%. This net increase was due to the start-up of dialysis facilities, the normal replacement costs of dialysis facilities and equipment, the purchase of information systems, and the amortization of the separately identifiable intangible assets associated with the acquisitions accounted for as purchases.

Income from Operations. Income from operations increased from $125.2 million for the nine months ended September 30, 2002 to $139.2 million for the nine months ended September 30, 2003, an increase of $14.0 million, or 11.2%. Income from operations as a percentage of net revenue decreased from 19.0% in the 2002 period to 18.7% in the 2003 period principally as a result of the adoption of the retirement package for the former Chairman, Chief Executive Officer, and President, as well as the factors discussed above.

Interest Expense, Net. Interest expense decreased from $880,000 for the nine months ended September 30, 2002 to $526,000 for the nine months ended September 30, 2003. The Company recognized interest expense in 2002 and 2003 primarily on short-term borrowings to fund repurchases of Renal Care Group common stock, capital leases and equipment notes payable, commitment fees and amortization of debt issuance costs. During the 2003 period the average short-term borrowings have been less than those outstanding in the 2002 period.

Minority Interest. Minority interest represents the proportionate equity interest of other partners in the Company s consolidated entities that are not wholly-owned, where the financial results of the entities are included in the Company s consolidated results. Minority interest as a percentage of net revenue increased to 2.6% in 2003 from 2.3% in 2002. This increase was the result of continued financial improvements in Renal Care Group s larger joint ventures, primarily those in Ohio, Oregon and Washington, as well as an increase in the number of facilities operated as joint ventures.

Provision for Income Taxes. The provision for income taxes increased from $41.4 million for the nine months ended September 30, 2002 to $45.4 million for the nine months ended September 30, 2003, an increase of $4.0 million or 9.6%. The increase was a result of the increase in pre-tax earnings described above. The Company s effective tax rate remained consistent at 38.0% for the 2002 and 2003 periods.

Net Income. Net income increased from $67.6 million for the nine months ended September 30, 2002 to $74.1 million for the nine months ended September 30, 2003, an increase of $6.5 million or 9.7%. The increase was a result of the items discussed above.

Liquidity and Capital Resources

Renal Care Group requires capital primarily to acquire and develop dialysis centers, to purchase property and equipment for existing centers, to repurchase shares of its common stock and to finance working capital needs. At September 30, 2003, the Company s working capital was $169.9 million, cash and cash equivalents were $121.1 million, and the Company s current ratio was approximately 2.1 to 1.

Net cash provided by operating activities was $148.3 million for the nine months ended September 30, 2003. Cash provided by operating activities consists of net income before depreciation and amortization expense, adjusted for changes in components of working capital, primarily accounts receivable, offset by distributions of $16.8 million to minority partners. Net cash used in investing activities was $60.2 million for the nine months ended September 30, 2003. Cash used in investing activities consisted primarily of $44.0 million of purchases of property and equipment and $14.2 million of cash paid for acquisitions. Net cash used in financing activities was $5.3 million for the nine months ended September 30, 2003. Cash used in financing activities primarily reflects $37.1 million in net proceeds from the issuance of common stock as options were exercised and from shares purchased under the Company s employee stock purchase plan, which was offset by net payments of debt of $7.2 million and repurchases of Renal Care Group common stock of $35.2 million.

In July 2002, Renal Care Group entered into two credit agreements with a group of banks totaling $150.0 million consisting of a $100.0 million Second Amended and Restated Loan Agreement (the Multi-Year Facility) and a $50.0 million Loan Agreement (the 364-day Facility). The Multi-Year Facility has a final maturity of July 1, 2005 and the 364-day Facility had a final maturity of June 30, 2003, which was extended to June 30, 2004 by an amendment entered into in June 2003. Borrowings under the credit agreements may be used for acquisitions, capital expenditures, working capital and general corporate purposes. No more than $25.0 million of either credit agreement may be used for any single acquisition without the consent of the lenders. These variable rate debt instruments carry a degree of interest rate risk. Specifically, variable rate debt may result in higher costs to the Company if interest rates rise.

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Each of Renal Care Group s wholly-owned subsidiaries has guaranteed all of Renal Care Group s obligations under the loan agreements. Further, Renal Care Group s obligations under the loan agreements, and the obligations of each of its subsidiaries under its guaranty, are secured by a pledge of the equity interests held by Renal Care Group in each of the subsidiaries. Financial covenants are customary based on the amount and duration of these commitments.

A significant component of Renal Care Group s growth strategy is the acquisition and development of dialysis facilities. There can be no assurance that Renal Care Group will be able to identify suitable acquisition candidates or to close acquisition transactions with them on acceptable terms. Management believes that existing cash and funds from operations, together with funds available under existing credit facilities, will be sufficient to meet Renal Care Group s acquisition, expansion, capital expenditure and working capital needs for the foreseeable future. However, in order to finance certain large strategic acquisition opportunities, Renal Care Group may need to incur additional short and long-term bank indebtedness or to issue equity or debt securities. The availability and terms of any future financing will depend on market and other conditions. There can be no assurance that Renal Care Group will be able to secure additional financing, if required, on acceptable terms.

Renal Care Group plans to make capital expenditures of between $65.0 million and $75.0 million, primarily for equipment replacement, expansion of existing dialysis facilities and construction of de novo facilities in 2003. Renal Care Group has made capital expenditures of $44.0 million through September 30, 2003. The Company expects that remaining capital expenditures in 2003 will be funded with cash provided by operating activities and the Company s existing credit facilities. Management believes that capital resources available to Renal Care Group will be sufficient to meet the needs of its business, both on a short- and long-term basis.

Management, from time to time, determines the appropriateness of repurchasing Renal Care Group common stock in accordance with a repurchase plan initially authorized by the Board of Directors in October 2000. In October 2003, the Company announced that its Board of Directors had approved an increase in the repurchase plan to allow the purchase of up to a total of $450.0 million in common stock. In the first and third quarters of 2003, Renal Care Group repurchased 152,000 and 863,000 shares of common stock for $4.4 million and $30.9 million, respectively. The Company did not repurchase shares of common stock during the second quarter of 2003. As of September 30, 2003, Renal Care Group had repurchased 4.0 million shares under the plan for a total of $129.2 million.

Critical Accounting Policies

The Securities and Exchange Commission issued a financial reporting release, FR-60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*. In accordance with that release, management has identified accounting policies that it considers critical to the business of Renal Care Group. Those policies include net revenue and contractual provisions, provision for doubtful accounts, self-insurance accruals, and impairment of long-lived assets and long-lived assets to be disposed of. These policies were identified as critical based on their importance to the consolidated financial statements as well as on the degrees of subjectivity and complexity involved in these policies. There have been no changes in Renal Care Group s critical accounting policies or in the application of those policies from those described in the Company s annual report on Form 10-K as filed with the SEC on March 18, 2003.

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RISK FACTORS

You should carefully consider the risks described below before investing in Renal Care Group. The risks and uncertainties described below ***are not*** *the only ones facing Renal Care Group. Other risks and uncertainties that we have not predicted or assessed may also adversely affect us.*

If any of the following risks occurs, our earnings, financial condition or business could be materially harmed, and the trading price of our common stock could decline, resulting in the loss of all or part of your investment.

If Congress or CMS Changes the Medicare or Medicaid Programs for Dialysis, Then Our Revenue and Earnings Could Decrease

If the government changes the Medicare, Medicaid or similar government programs or the rates those programs pay for our services, then our revenue and earnings may decline. We estimate that approximately 49% of our net revenue for 2001, 50% of our net revenue for 2002 and 49% of our net revenue for the nine months ended September 30, 2003 consisted of reimbursements from Medicare, including reimbursement for the administration of EPO to treat anemia. We also estimate that approximately 6% of our net revenue for 2001, 7% of our net revenue for 2002 and 6% of our net revenue for the nine months ended September 30, 2003 consisted of reimbursements from Medicaid or comparable state programs. Any of the following actions in connection with government programs could cause our revenue and earnings to decline:

- a reduction of the amount paid to us under government programs;
- an increase in the costs associated with performing our services that are subject to inflation, such as labor and supply costs, without a corresponding increase in reimbursement rates;
- the inclusion of some or all ancillary services, for which we are now reimbursed separately, in the flat composite rate for a dialysis treatment; or
- changes in laws, or the interpretations of laws, which could cause us to modify our operations.

Specifically, Congress and CMS have proposed expanding the drugs and services that are included in the flat composite rate. CMS has indicated that it believes such a mechanism would be fairer and easier to administer. In addition, Congress and CMS have proposed reviewing and potentially recalculating the average wholesale prices of some drugs, including some of the drugs that we bill for outside of the flat composite rate. CMS has indicated that it believes the average wholesale prices on which it currently bases reimbursement are too high and that Medicare reimbursement for these drugs is, therefore, too high. We are unable to predict accurately whether reimbursement will be changed and, if so, by how much; therefore, we are unable to quantify what the net effect of changes in the flat composite rate or reimbursement for ancillary drugs would have on our revenue and earnings.

If States Lower Medicaid Reimbursement, Then We Would be Less Profitable

The Medicaid programs in some of the states in which we operate reimburse us at rates higher than those paid by Medicare. Some of these programs, like Washington s and Wisconsin s, have approved and implemented reductions in reimbursement. Other programs have proposed reductions or have announced that they are considering reductions. In addition, a number of the states where we operate are experiencing budget shortfalls, and some of these states may consider reducing Medicaid reimbursement or changing their Medicaid programs to cut costs. If all of the states in which we operate that have Medicaid rates that are higher than Medicare rates were to reduce their rates for all of our services to Medicare rates and giving effect to the reductions already approved in Washington and Wisconsin, our earnings per share will likely be adversely affected by between $0.10 and $0.15 per share in 2004. We are unable to predict whether and, if so, when any reductions in Medicaid reimbursement other than those approved in Washington and Wisconsin might occur and what their precise effect will be.

If Reimbursement for EPO Decreases, Then We Could be Less Profitable

If government or private payors decrease reimbursement rates for EPO, for which we are currently reimbursed separately outside of the flat composite rate, then our revenue and earnings will decline. EPO is a bio-engineered hormone that is used to treat anemia. Revenues from the administration of EPO were approximately 25% of our net revenue for 2001, 23% of our net revenue for 2002, and 24% of our net revenue for the nine months ended September 30, 2003. Most of our payments for EPO come from government programs. For the nine months ended September 30, 2003, Medicare and Medicaid reimbursement represented approximately 55% of the total revenue we derived from EPO. A reduction in the reimbursement rate for EPO could materially and adversely affect our revenue and earnings.

If Amgen Raises the Price for EPO or if EPO Becomes in Short Supply, Then We Could be Less Profitable

EPO is produced by a single manufacturer, Amgen Inc., and there are no substitute products currently marketed to dialysis providers in the United States. In April 2002, Amgen announced a 3.9% increase in the price of EPO. This price increase did not affect our earnings in 2002 because our contract with Amgen had pricing protection through 2002, but has adversely affected our earnings in the first three quarters of 2003 and will continue to adversely affect us throughout 2003. If Amgen imposes additional EPO price increases or if Amgen or other factors interrupt the supply of EPO, then our revenue and earnings will decline.

If Amgen Markets Aranesp® for ESRD Patients, Then We Could be Less Profitable

Amgen has developed and obtained FDA approval for a new drug to treat anemia marketed as Aranesp® (darbepoetin alfa). Aranesp® is a longer acting form of bio-engineered protein that, like EPO, can be used to treat anemia. EPO is usually administered in conjunction with each dialysis treatment. Aranesp® can remain effective for between two and three weeks. If Amgen markets Aranesp® for the treatment of dialysis patients, then our earnings could be materially and adversely affected by either of the following factors:

- Our margins realized from the administration of Aranesp® could be lower than the margins realized on the administration of EPO; or
- Physicians could decide to administer Aranesp® in their offices, and we would not recognize revenue or profit from the administration of EPO or Aranesp®.

If Payments by Private Insurers, Hospitals or Managed Care Organizations Decrease, Then Our Revenue and Earnings Could Decrease

If private insurers, managed care organizations or hospitals reduce their rates or if we experience a significant shift in our revenue mix toward additional Medicare or Medicaid reimbursement, then our revenue and earnings will decline. We estimate that approximately 45% of our net revenue for 2001, 43% of our net revenue for 2002 and 45% of our net revenue for the nine months ended September 30, 2003 were derived from sources other than Medicare and Medicaid. In general, payments we receive from private insurers and hospitals for our services are at rates significantly higher than the Medicare or Medicaid rates. Payments we receive from

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managed care organizations are also at rates higher than Medicare and Medicaid rates but lower than those paid by private insurers. In addition, we have been able to implement annual price increases for these private payors that we have not been able to implement for federal programs. Management believes that health insurance pricing is cyclical and that we may be at or near the top of the cycle. As a result, management believes that our ability to maintain or raise rates to private insurers and managed care companies will likely be more limited over the next several years than it has been in the recent past. The Company has recently experienced reductions in reimbursement from two commercial insurers, and management believes that the reductions in reimbursement by these two commercial insurers along with pricing pressure from other commercial insurers and managed care organizations will likely adversely impact our revenue per treatment and earnings per share in 2004. Any of the following events could have a material adverse effect on our revenue and earnings:

- any number of economic or demographic factors could cause private insurers, hospitals or managed care companies to reduce the rates they pay us or to refuse to pay price increases or work to reduce the rate of our price increases;

- a portion of our business that is currently reimbursed by private insurers or hospitals may become reimbursed by managed care organizations, which generally have lower rates for our services; or

- the scope of coverage by Medicare or Medicaid under the flat composite rate could expand and, as a result, reduce the extent of our services being reimbursed at the higher private-insurance rates.

If Local Physicians Stop Sending Patients to Our Centers or Were Prohibited From Doing so for Regulatory Reasons, Then Our Revenue and Earnings Would Decline

Our dialysis centers depend on local nephrologists sending patients to the centers. Typically, one or a few physicians patients make up all or a significant portion of the patient base at each of our dialysis centers, and the loss of the patient base of one or more of these physicians could have a material adverse effect on the operations of that center. The loss of the patient base of a significant number of local physicians could cause our revenue and earnings to decline. In many instances, the primary referral sources for our centers are physicians who also serve as medical directors of our centers and may be shareholders. If the medical director relationship or stock ownership were found to violate applicable federal or state law, including fraud and abuse laws and laws prohibiting self-referrals, then the physicians acting as medical directors or owning our stock could be forced to stop referring patients to our centers. A number of our medical director agreements will expire over the next three years, unless they are renewed or renegotiated. We have not been able to renew or renegotiate a small number of our medical director agreements that have expired this year, and we may not be able to renew or renegotiate expiring medical director agreements successfully, or we may not be able to enforce the non-competition provisions of some of our medical director or other agreements, any of which could result in a loss of patients, since dialysis patients are typically treated at a center where their physician or a member of his or her practice group serves as medical director. We believe that our future success will depend in part on our ability to attract and retain qualified physicians to serve as medical directors of our dialysis centers.

If Our Business Is Alleged or Found To Violate Heath Care or Other Applicable Laws, Our Revenue and Earnings Could Decrease

We are subject to extensive federal, state and local regulation. The laws that apply to our operations include, but are not limited to, the following:

- fraud and abuse prohibitions under state and federal health care laws;

- prohibitions and limitations on patient referrals;

- billing and reimbursement rules, including false claims prohibitions under health care reimbursement laws;

rules regarding the collection, use, storage and disclosure of patient health information, including the federal Health Insurance Portability and Accountability Act of 1996, referred to as HIPAA, and state law equivalents of HIPAA;

facility licensure;

health and safety requirements;

environmental compliance; and

medical and toxic waste disposal.

Much of the regulation of our business, particularly in the areas of fraud and abuse and patient referral, is complex and open to differing interpretations. Due to the broad application of the statutory provisions and the absence in many instances of regulations or court decisions addressing the specific arrangements by which we conduct our business, including our arrangements with medical directors, physician stockholders and physician joint venture partners, governmental agencies could challenge some of our practices under these laws.

New regulations governing electronic transactions and the collection, use, storage, and disclosure of health information impose significant administrative and financial obligations on our business. If, after the required compliance date, we are found to have violated these regulations, we could be subject to:

criminal or civil penalties, including significant fines;

claims by people who believe their health information has been improperly used or disclosed; and

administrative penalties by payors.

Government investigations of health care providers, including dialysis providers, have continued to increase. We have been the subject of investigations in the past, and the government may investigate our business in the future. One of our competitors, DaVita, Inc., has announced that it is the subject of an investigation by the U.S. Attorney for the Eastern District of Pennsylvania, and another competitor, Gambro Healthcare, Inc., has announced that it is the subject of an investigation by the U.S. Attorney s Office in St. Louis, Missouri. If any of our operations are found to violate applicable laws, then we may be subject to severe sanctions, or we could be required to alter or discontinue the challenged conduct or both. If we are required to alter our practices, we may not be able to do so successfully. If any of these events occurs, our revenue and earnings could decline.

Changes in the Health Care Delivery, Financing or Reimbursement Systems Could Adversely Affect Our Business

The health care industry in the United States may be entering a period of change and uncertainty. Health care organizations, public or private, may dramatically change the way they operate and pay for services. Our business is designed to function within the current health care financing and reimbursement system. During the past several years, the health care industry has been subject to increasing levels of government regulation of, among other things, reimbursement rates and relationships with referring physicians. In addition, proposals to reform the health care system have been considered by Congress. In light of the continued increases in the cost of health care and the current economic weakness, there may be new proposals to change the health care system and control costs. These proposals, if enacted, could further increase the government s oversight role and involvement in health care, lower reimbursement rates and otherwise change the operating environment for health care companies. We cannot predict the likelihood of those events or what impact they may have on our business.

The Dialysis Business Is Highly Competitive. If We Do Not Compete Effectively in Our Markets, Then We Could Lose Market Share and Our Rate of Growth Could Slow

The dialysis industry is largely consolidated, and the consolidation trend continues as large providers acquire smaller providers. There is a small number of large dialysis companies that compete for the acquisition of outpatient dialysis centers and the development of relationships with referring physicians. Two of our major competitors are part of larger companies that also manufacture dialysis equipment, which allows them to benefit from lower equipment costs. Several of our competitors, including these equipment manufacturers, are significantly larger than we are and have greater financial resources and more established operations. We cannot assure you that we will be able to compete effectively with any of our competitors.

If We Lose Any of Our Executive Officers, Then Our Ability To Run Our Business Could be Adversely Affected, and Our Revenue and Earnings Could Decline

We depend on the services of our executive officers William P. Johnston, our Chairman of the Board, Gary A. Brukardt, our President and Chief Executive Officer, Raymond M. Hakim, M.D., Ph.D. and David M. Dill, each an Executive Vice President, and Douglas B. Chappell, our General Counsel. Mr. Brukardt and Dr. Hakim have each been with Renal Care Group since its formation. The services of our executive officers would be difficult to replace. We recently selected Mr. Johnston as our Executive Chairman and Mr. Brukardt as our President and Chief Executive Officer, and we cannot predict what impact the loss of Mr. Brooks, our previous Chairman, President and Chief Executive Officer and the appointment of Mr. Johnston and Mr. Brukardt in these positions will have on Renal Care Group.

If We are Unable to Make Acquisitions in the Future, Then Our Rate of Growth Will Slow

Much of our historical growth has come from acquisitions. Although we intend to continue to pursue growth through the acquisition of dialysis centers, we may be unable to identify and complete suitable acquisitions at prices we are willing to pay, or we may be unable to obtain the necessary financing. Further, due to the increased size of our Company since its formation, the amount that acquired businesses contribute to our revenue and profits will continue to be smaller on a percentage basis. Also, as a result of consolidation in the dialysis industry, the four largest providers of outpatient dialysis services own approximately 65% of the outpatient dialysis facilities in the United States. We compete with these other companies to identify and complete suitable acquisitions. We expect this competition to intensify in light of the smaller pool of available acquisition candidates and other market forces. As a result, we believe it will be more difficult for us to acquire suitable companies on favorable terms. Further, the businesses we acquire may not perform well enough to justify our investment. If we are unable to make additional acquisitions on suitable terms, then we may not meet our growth expectations.

If We Complete Future Acquisitions, We May Dilute Existing Stockholders by Issuing More of Our Common Stock or We May Incur Expenses Related to Debt and Goodwill, Which Could Reduce Our Earnings

We may issue equity securities in future acquisitions that could be dilutive to our shareholders. We also may incur additional debt in future acquisitions. Interest expense on debt incurred to fund our acquisitions may significantly reduce our profitability. While goodwill and other intangible assets with indefinite lives are not amortized to expense under generally accepted accounting principles, we are required to review all of these assets at regular intervals for impairment and to charge an appropriate amount to expense when impairment is identified. If we identify impairment and are required to write off a significant portion of our intangible assets at one time, then there could be a material adverse impact on our stock price.

If We Fail to Integrate Acquired Companies, Then We Will be Less Profitable

We have grown significantly by acquisitions of other dialysis providers since our formation. We intend to pursue acquisitions of more dialysis businesses in the future. We are unable to predict the number and size of any future acquisitions. We face significant challenges in integrating an acquired company s management and other personnel, clinical operations, and financial and operating systems with ours, often without the benefit of continued services from key personnel of the acquired company. We face these challenges particularly in larger acquisitions. We may be unable to integrate the businesses we acquire successfully or to achieve anticipated benefits from an acquisition in a timely manner, which could lead to substantial costs and delays or other operational, technical or financial problems, including diverting management s attention from our existing business. Any of these results could damage our profitability and our prospects for future growth.

If Acquired Businesses Have Unknown Liabilities, Then We Could be Exposed to Liabilities That Could Harm Our Business and Profitability

Businesses we acquire may have unknown or contingent liabilities, including liabilities for failure to comply with health care laws. Although we generally attempt to identify practices that may give rise to unknown or contingent liabilities and conform them to our standards after the acquisition, private plaintiffs or governmental agencies may still assert claims. Even though we generally seek to obtain indemnification from the sellers of businesses we buy, unknown and contingent liabilities may not be covered by indemnification or may exceed contractual limits or the financial capacity of the indemnifying party.

If Our Costs of Insurance and Claims Increase, Then Our Earnings Could Decrease

Renal Care Group currently maintains programs of general and professional liability insurance and directors and officers insurance with significant deductible or self-insured retention amounts on each claim. In addition, we generally self-insure our employee health plan and workers compensation program, while maintaining excess insurance for some very large claims. We have accepted higher deductibles and self-insurance exposure in each of the last several years to offset part of the increases in premiums for the programs. These deductibles and premiums increased substantially in 2002 and 2003. Our earnings could be materially and adversely affected by any of the following:

- further increases in premiums, deductible and self-insurance retentions;
- increases in the number of liability claims against us or the cost of settling or trying cases related to those claims; and
- an inability to obtain one or more types of insurance on acceptable terms.

If Our Board of Directors Does Not Approve an Acquisition or Change in Control of Renal Care Group, Then Our Shareholders May Not Realize the Full Value of Their Stock

Our certificate of incorporation and bylaws contain a number of provisions that may delay, deter or inhibit a future acquisition or change in control of Renal Care Group that is not first approved by our board of

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directors. This could occur even if our shareholders receive an attractive offer for their shares or if a substantial number or even a majority of our shareholders believe the takeover is in their best interest. These provisions are intended to encourage any person interested in acquiring Renal Care Group to negotiate with and obtain approval from our board of directors before pursuing a transaction. Provisions that could delay, deter or inhibit a future acquisition or change in control of Renal Care Group include the following:

- a staggered board of directors that would require two annual meetings to replace a majority of the board of directors;
- restrictions on calling special meetings at which an acquisition or change in control might be brought to a vote of the shareholders;
- blank check preferred stock that may be issued by our board of directors without shareholder approval and that may be substantially dilutive or contain preferences or rights objectionable to an acquiror; and
- a poison pill that would substantially dilute the interest sought by an acquiror.

These provisions could also discourage bids for our common stock at a premium and cause the market price of our common stock to decline.

Our Stock Price Is Volatile and as a Result, the Value of Your Investment May Go Down for Reasons Unrelated To the Performance of Our Business

Our common stock is traded on the New York Stock Exchange. The market price of our common stock has been volatile, ranging from a low closing price of $28.05 per share to a high closing price of $37.60 per share during the nine months ended September 30, 2003. The market price for our common stock could fluctuate substantially based on a variety of factors, including the following:

- future announcements concerning us, our competitors or the health care market;
- the threat of litigation or government investigation;
- changes in government regulations; and
- changes in earnings estimates by analysts.

Furthermore, stock prices for many companies fluctuate widely for reasons that may be unrelated to their operating results. These fluctuations, coupled with changes in demand or reimbursement levels for our services and general economic, political and market conditions, could cause the market price of our common stock to decline.

Forward Looking Statements

Some of the information in this quarterly report on Form 10-Q represents forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as may, will, expect, anticipate, believe, intend, estimat continue or similar words. You should read statements that contain these words carefully for the following reasons:

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- the statements discuss our future expectations;
- the statements contain projections of our future earnings or of our financial condition; and
- the statements state other forward-looking information.

We believe it is important to communicate our expectations to our investors. There may, however, be events in the future that we are not accurately able to predict or over which we have no control. The risk factors listed above, as well as any cautionary language in or incorporated by reference into this quarterly report on Form 10-Q, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. The SEC allows us to incorporate by reference the information we file with them, which means we can disclose important information to you by referring you to those documents. Before you invest in our common stock, you should be aware that the occurrence of any of the events described in the above risk factors, elsewhere in or incorporated by reference into this quarterly report on Form 10-Q and other events that we have not predicted or assessed could have a material adverse effect on our earnings, financial condition and business. If the events described above or other unpredicted events occur, then the trading price of our common stock could decline and you may lose all or part of your investment.

ITEM 4. CONTROLS AND PROCEDURES

(a) The Company s chief executive officer and chief financial officer evaluated Renal Care Group s disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the chief executive officer and chief financial officer have concluded that as of the end of the period covered by this report Renal Care Group maintains disclosure controls and procedures that provide reasonable assurance that information required to be disclosed in Renal Care Group s reports under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the SEC s rules and forms.

(b) There have been no changes in the Company s internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.33.1 Amendment #2 dated February 10, 2003 to Agreement No. 200010240 between Renal Care Group, Inc. and Amgen Inc. (The Company has requested confidential treatment of certain portions of this Exhibit.)

31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

Form 8-K filed July 29, 2003

Form 8-K filed August 6, 2003

Form 8-K filed August 12, 2003

Form 8-K filed September 3, 2003

* In accordance with Release No. 34-47551, this exhibit is hereby furnished to the SEC as an accompanying document and is not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, and it shall not be deemed incorporated by reference into any filing under the Securities Act of 1933.

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SIGNATURE

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.

		RENAL CARE GROUP, INC. (Registrant)
November 12, 2003	BY:	/s/ David M. Dill
		David M. Dill Executive Vice President, Chief Financial Officer, and Principal Financial Officer and Principal Accounting Officer

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RENAL CARE GROUP, INC.

EXHIBIT INDEX

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