FRESENIUS MEDICAL CARE CORP
Form 6-K
May 16, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of the

Securities Exchange Act of 1934

For the month of May 2003

FRESENIUS MEDICAL CARE CORPORATION

(Translation of registrant s name into English)

Else-Kröner Strasse 1

61346 Bad Homburg
Germany
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): __

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): __

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes __ No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82

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906 Certification SCHNIEDER

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FRESENIUS MEDICAL CARE AG

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FRESENIUS MEDICAL CARE AG

PART I

FINANCIAL INFORMATION

ITEM 1

Financial Statements
Condensed Consolidated Statements of Earnings
For the three months ended March 31, 2003 and 2002
(unaudited)
(in thousands, except per share data)

	2003	2002
Net revenue:		
Dialysis Care	$944,287	$881,176
Dialysis Products	355,148	305,328
	1,299,435	1,186,504
Costs of revenue:		
Dialysis Care	691,746	653,428
Dialysis Products	190,741	155,754
	882,487	809,182
Gross profit	416,948	377,322
Operating expenses:		
Selling, general and administrative	237,175	194,118
Research and development	10,943	9,309
Operating income	168,830	173,895
Other (income) expense:		
Interest income	(3,277)	(2,229)
Interest expense		

	57,023	74,984
Income before income taxes and minority interest	115,084	101,140
Income tax expense	44,537	36,848
Minority interest	537	860
Net income	$70,010	$63,432
Basic and fully diluted income per Ordinary share	$0.72	$0.66
Basic and fully diluted income per Preference share	$0.74	$0.67

See accompanying notes to unaudited condensed consolidated financial statements

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FRESENIUS MEDICAL CARE AG

Condensed Consolidated Balance Sheets

At March 31, 2003 and December 31, 2002
(in thousands, except share and per share data)

	2003 (unaudited)	2002
Assets		
Current assets:		
Cash and cash equivalents	$77,322	$64,793
Trade accounts receivable, less allowance for doubtful accounts of $166,079 in 2003 and $159,763 in 2002	1,051,324	914,302
Accounts receivable from related parties	53,718	41,332
Inventories	393,621	372,222
Prepaid expenses and other current assets	258,897	239,172
Deferred taxes	185,869	189,879
Total current assets	2,020,751	1,821,700
Property, plant and equipment, net	925,032	917,868
Intangible assets	570,360	550,321
Goodwill	3,211,287	3,192,651
Deferred taxes	32,270	35,741
Other assets	293,237	261,668
Total assets	$7,052,937	$6,779,949

Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$201,513	$185,949
Accounts payable to related parties	109,772	98,992
Accrued expenses and other current liabilities	462,111	469,228
Accrual for special charge for legal matters	185,883	191,130
Short-term borrowings	116,883	124,964
Short-term borrowings from related parties	6,000	
Current portion of long-term debt and capital lease obligations	23,284	22,394
Income tax payable	188,754	178,690
Deferred taxes	17,763	18,027
Total current liabilities	1,305,963	1,295,374
Long-term debt and capital lease obligations, less current portion	1,228,644	1,089,210
Other liabilities	151,852	150,685
Pension liabilities	98,071	100,326
Deferred taxes	185,980	169,372
Company-obligated mandatorily redeemable preferred securities of subsidiary Fresenius Medical Care Capital Trusts holding solely Company-guaranteed debentures of subsidiaries	1,163,933	1,145,281
Minority interest	12,633	22,522
Total liabilities	4,147,076	3,972,770
Shareholders equity:		
Preference shares, no par, 2.56 nominal value, 53,597,700 shares authorized, 26,188,575 issued and		

outstanding	69,540	69,540
Ordinary shares, no par, 2.56 nominal value, 70,000,000 shares authorized, issued and outstanding	229,494	229,494
Additional paid-in capital	2,737,441	2,736,913
Retained earnings	224,605	154,595
Accumulated other comprehensive loss	(355,219)	(383,363)
Total shareholders equity	2,905,861	2,807,179
Total liabilities and shareholders equity	$7,052,937	$6,779,949

See accompanying notes to unaudited condensed consolidated financial statements

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FRESENIUS MEDICAL CARE AG

Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2003 and 2002
(unaudited)
(in thousands)

	2003	2002
Operating Activities:		
Net income	$70,010	$63,432
Adjustments to reconcile net income to cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	52,846	51,030
Loss on early redemption of trust preferred securities, net of tax		11,777
Change in deferred taxes, net	10,494	11,562
Loss on sale of fixed assets	284	164
Compensation expense related to stock options	508	354
Changes in assets and liabilities, net of amounts from businesses acquired:		
Trade accounts receivable, net	14,095	(541)
Inventories	(13,593)	(21,291)
Prepaid expenses, other current and non-current assets	6,740	(21,014)
Accounts receivable from/payable to related parties	(3,214)	1,496
Accounts payable, accrued expenses and other current and non-current liabilities	(18,456)	(26,056)
Income tax payable	5,472	(429)
Net cash provided by operating activities		

	125,186	70,484
Investing Activities:		
Purchases of property, plant and equipment	(43,696)	(54,794)
Proceeds from sale of property, plant and equipment	2,781	4,439
Acquisitions and investments, net of cash acquired	(28,083)	(8,962)
Net cash used in investing activities	(68,998)	(59,317)
Financing Activities:		
Proceeds from short-term borrowings	17,408	38,588
Repayments of short-term borrowings	(32,692)	(22,001)
Proceeds from short-term borrowings from related parties		14,653
Repayments of short-term borrowings from related parties	(6,000)	(15,000)
Proceeds from long-term debt	738,517	377,561
Principal payments of long-term debt and capital lease obligations	(622,300)	(46,237)
Redemption of trust preferred securities		(376,200)
(Decrease) increase of accounts receivable securitization program	(133,000)	28,076
Proceeds from exercise of stock options	20	318
Redemption of Series D Preferred Stock of subsidiary	(8,906)	
Change in minority interest	407	730

Net cash (used in) provided by financing activities	(46,546)	488
Effect of exchange rate changes on cash and cash equivalents	2,887	2,213
Cash and Cash Equivalents:		
Net increase in cash and cash equivalents	12,529	13,868
Cash and cash equivalents at beginning of period	64,793	61,572
Cash and cash equivalents at end of period	$77,322	$75,440

See accompanying notes to unaudited condensed consolidated financial statements

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FRESENIUS MEDICAL CARE AG

Consolidated Statement of Shareholders Equity

For the three months ended March 31, 2003 (unaudited) and year ended December 31, 2002
(in thousands, except share data)

	Preference Shares		Ordinary Shares			
	Number of shares	No par value	Number of shares	No par value	Additional paid in capital	Reta earn
Balance at December 31, 2001	26,176,508	$69,512	70,000,000	$229,494	$2,735,265	$(58

Proceeds from exercise of options
12,067 28 522
Compensation expense related to stock options
1,126
Dividends paid
(76,743)
Comprehensive income

Net income
289,790
Other comprehensive income related to cash flow hedges

Foreign currency translation adjustment

Minimum pension liability

Comprehensive income

Balance at December 31, 2002
26,188,575 $69,540 70,000,000 $229,494 $2,736,913 $154,595

Proceeds from exercise of options
20
Compensation expense related to stock options
508
Comprehensive income

Net income
70,010

Other comprehensive income related to cash flow hedges

Foreign currency translation adjustment

Minimum pension liability

Comprehensive income

Balance at March 31, 2003
26,188,575 $69,540 70,000,000 $229,494 $2,737,441 $224,605

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Accumulated other comprehensive loss			
	Foreign currency translation	Cash Flow Hedges	Minimum Pension Liability	Total
Balance at December 31, 2001	$ (308,392)	$ (50,683)	$	$ 2,616,744
Proceeds from exercise of options				
550				
Compensation expense related to stock options				
1,126				
Dividends paid				
(76,743)				
Comprehensive income				
Net income				

289,790
Other comprehensive income related to cash flow hedges
33,501 33,501
Foreign currency translation adjustment
(38,432) (38,432)
Minimum pension liability
(19,357) (19,357)

Comprehensive income
265,502

Balance at December 31, 2002
$(346,824) (17,182) (19,357) $2,807,179

Proceeds from exercise of options
20
Compensation expense related to stock options
508
Comprehensive income

Net income
70,010
Other comprehensive income related to cash flow hedges
14,003 14,003
Foreign currency translation adjustment
14,141 14,141
Minimum pension liability

Comprehensive income
98,154

Balance at March 31, 2003
$(332,683) (3,179) (19,357) $2,905,861

See accompanying notes to unaudited condensed consolidated financial statements

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FRESENIUS MEDICAL CARE AG

Notes to Condensed Consolidated Financial Statements

(unaudited)
(in thousands, except share and per share data)

1. The Company and Basis of Presentation

The Company

Fresenius Medical Care AG (FMC AG or the Company) is a German stock corporation (*Aktiengesellschaft*). The Company is primarily engaged in (i) providing kidney dialysis services, clinical laboratory testing and renal diagnostic services and (ii) manufacturing and distributing products and equipment for dialysis treatment.

Basis of Presentation

a) Basis of Consolidation

The condensed consolidated financial statements at March 31, 2003 and for the three-month periods ended March 31, 2003 and 2002 in this report are unaudited and should be read in conjunction with the consolidated financial statements in the Company s 2002 Annual Report on Form 20-F. Such financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are of a normal recurring nature.

The results of operations for the three-month period ended March 31, 2003 are not necessarily indicative of the results of operations for the fiscal year ending December 31, 2003.

b) Classifications

Certain items in the prior year s comparative consolidated financial statements have been reclassified to conform with the current year s presentation.

2. Special Charge for Legal Matters

In the fourth quarter of 2001, the Company recorded a $258,159 ($177,159 after tax) special charge to address 1996 merger-related legal matters, estimated liabilities and legal expenses arising in connection with the W.R. Grace Chapter 11 proceedings and the cost of resolving pending litigation and other disputes with certain commercial insurers (see Note 11).

The Company accrued $172,034 principally representing a provision for income taxes payable for the years prior to the 1996 merger for which the Company has been indemnified by W.R. Grace, but may ultimately be obligated to pay as a result of W.R. Grace s Chapter 11 filing. In addition, that amount included the costs of defending the Company in litigation arising out of W.R. Grace s Chapter 11 filing (see Note 11).

The Company included $55,489 in the special charge to provide for settlement obligations, legal expenses and the resolution of disputed accounts receivable relating to various insurance companies (see Note 11).

The $30,636 remaining amount of the special charge was accrued mainly for (i) assets and receivables that are impaired in connection with other legal matters and (ii) anticipated expenses associated with the continued defense and resolution of the legal matters.

At March 31, 2003, there is a remaining balance of $185,883 for the accrual for the special charge for legal matters. The Company believes that these reserves are adequate for the settlement of all matters described above. During the three months ended March 31, 2003, $5,247 in charges were applied against the accrued special charge for legal matters.

FRESENIUS MEDICAL CARE AG

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)
(in thousands, except share and per share data)

3. Debt and Capital Lease Obligations

At March 31, 2003 and December 31, 2002, long term debt and capital lease obligations consisted of the following:

	March 31, 2003	December 31, 2002
Senior credit agreement	$1,000,626	$861,900
Capital leases	10,072	10,645
Euro-notes	140,001	134,758
Other	101,229	104,301
	1,251,928	1,111,604
Less current maturities	(23,284)	(22,394)
	$1,228,644	$1,089,210

2003 Senior Credit Agreement

On February 21, 2003, the Company entered into an amended and restated bank agreement (hereafter 2003 Senior Credit Agreement) with Bank of America N.A, Credit Suisse First Boston, Dresdner Bank AG New York, JPMorgan Chase Bank, The Bank of Nova Scotia and certain other lenders (collectively, the Lenders), pursuant to which the Lenders have made available to the Company and certain subsidiaries and affiliates an aggregate amount of up to $1,500,000 through three credit facilities:

a revolving credit facility of up to $500,000 (of which up to $250,000 is available for letters of credit, up to $300,000 is available for borrowings in certain non-U.S. currencies, up to $75,000 is available as swing lines in U.S. dollars, up to $250,000 is available as a competitive loan facility and up to $50,000 is available as swing lines in certain non-U.S. currencies, the total of which cannot exceed $500,000) which will be due and payable on October 31, 2007.

a term loan facility (Loan A) of $500,000, also scheduled to expire on October 31, 2007. The terms of the 2003 Senior Credit Agreement require payments that permanently reduce the term loan facility. The repayment begins in the third quarter of 2004 and amounts to $25,000 per quarter. The remaining amount outstanding is due on October 31, 2007.

a term loan facility (Loan B) of $500,000 scheduled to expire in February 2010 with a repayment provision that if the Trust Preferred Securities due February 1, 2008 are not repaid, refinanced or have their maturity extended prior to October 2007, repayment of Loan B will be on October 31, 2007. The terms of the 2003 Senior Credit Agreement require repayments of 0.25% per quarter beginning with the second quarter of 2003.

For the revolving credit facility and Loan A, interest will be at a rate equal to LIBOR plus an applicable margin, or base rate, defined as the higher of the Bank of America prime rate or the Federal Funds rate plus 0.5% plus the applicable margin. The applicable margin is variable and depends on the ratio of funded debt to EBITDA as defined in the credit agreement. The initial interest rate for Loan B is LIBOR plus 2.5%. Fees are also payable at a percentage (initially 0.50%) per annum on the portion of the 2003 Senior Credit Agreement not used.

In addition to scheduled principal payments, the 2003 Senior Credit Agreement will be reduced by portions of the net cash proceeds from certain sales of assets, securitization transactions and the issuance of subordinated debt and equity securities.

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FRESENIUS MEDICAL CARE AG

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)
(in thousands, except share and per share data)

The 2003 Senior Credit Agreement contains affirmative and negative covenants with respect to the Company and its subsidiaries and other payment restrictions substantially similar to the previous senior credit agreement. Some of the covenants limit indebtedness of the Company and investments by the Company, and require the Company to maintain certain ratios defined in the agreement. Additionally, the Senior Credit Agreement provides for a dividend restriction which amounts to $130,000 in 2003.

4. Redemption of Trust Preferred Securities

On February 14, 2002, FMC AG redeemed the entire $360,000 aggregate liquidation amount outstanding of its 9% Trust Preferred Securities due 2006, utilizing funds borrowed under FMC AG s 1996 senior credit agreement. The terms of the securities, which were issued in 1996, provided for optional redemption commencing December 1, 2001 at a redemption price of 104.5% of the liquidation amount, plus distributions accrued to the redemption date. FMC AG redeemed the securities at a price of $1,045 per $1,000 liquidation amount plus accrued distributions of $18.25 per $1,000. At that time an extraordinary loss of $11,777 was recorded as a result of the early redemption of debt, consisting of $16,200 of redemption premium and $3,317 of write-off of associated debt issuance costs, net of a $7,740 tax benefit. As of January 1, 2003 the Company adopted SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* in regard to SFAS No. 4. As a result, the loss is no longer presented as an extraordinary loss, but in interest expense, with the related income tax effect included in income taxes.

5. Acquisitions

During the three months ended March 31, 2003, the Company acquired certain health care and distribution facilities for a total consideration of $33,711. $28,083 of the total consideration was paid in cash.

6. Inventories

As of March 31, 2003 and December 31, 2002, inventories consisted of the following:

	March 31, 2003	December 31, 2002
Raw materials and purchased components	$82,017	$79,760
Work in process	27,262	26,233
Finished goods	217,366	196,830
Health care supplies	66,976	69,399

Inventories	$393,621	$372,222

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FRESENIUS MEDICAL CARE AG

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)
(in thousands, except share and per share data)

7. Intangible Assets and Goodwill

The carrying value and accumulated amortization of intangible assets are as follows:

	March 31, 2003		December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable Intangible Assets				
Patient relationships	$251,550	$(196,762)	$249,069	$(191,571)
Patents	14,742	(12,779)	14,395	(12,317)
Distribution rights	10,547	(6,367)	10,226	(5,886)
Other	160,757	(75,679)	155,317	(72,217)
	$437,596	$(291,587)	$429,007	$(281,991)

	Carrying Amount	Carrying Amount
Non-Amortizable Intangible Assets		
Tradename	220,580	220,249

Management Contracts
203,771 183,056

Intangible assets
$424,351 $403,305

Amortization expense for amortizable intangible assets at March 31, 2003 is estimated to be $24,192 for the remainder of 2003, $24,632 for 2004, $22,078 for 2005, $16,513 for 2006 and $12,177 for 2007.

Goodwill

Increases in the carrying amount of goodwill are a result of this quarters acquisitions totaling $33,711 (see Note 5). The segment detail is as follows:

	North America	International	Corporate	Total
Balance as of January 1, 2003	$2,940,326	$252,325	$	$3,192,651

Goodwill acquired during year, net
13,493 11,163 11,154
Reclassifications
(15,610) (9) (2,117)
Currency Translation
9,599 9,599

Balance as of March 31, 2003
$2,938,209 $273,078 $ $3,211,287

8. Minority Interest

Class D Preferred Stock

On February 4, 2003, the Company and Fresenius Medical Care Holdings, Inc.(FMCH) announced that FMCH was exercising its right to redeem all of the outstanding shares of Class D Preferred Stock (Class D Shares) of FMCH. The Class D Shares were issued to the common shareholders of W.R. Grace & Co. in connection with the 1996 combination of the worldwide dialysis business of Fresenius AG with the dialysis business of W.R. Grace & Co. to form the Company.

Commencing on March 28, 2003, Class D Shares that were properly transferred to, and received by, the redemption agent were redeemed at a redemption price of $0.10 per share. FMCH redeemed the 89 million outstanding Class D Shares at a total cash outflow of $8,906. This transaction had no earnings impact for the

FRESENIUS MEDICAL CARE AG

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)
(in thousands, except share and per share data)

Company. After March 28, 2003 the Class D Shares ceased to be issued and outstanding shares of FMCH s capital stock and were restored to the status of authorized but unissued shares of preferred stock.

9. Stock Options

The Company accounts for its stock option plans using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, as allowed by SFAS No. 123, *Accounting for Stock-Based Compensation,* subject to complying with the additional disclosure requirements of SFAS No. 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123*. As such, compensation expense is recorded only if the current market price of the underlying stock exceeds the exercise price on the measurement date. For stock incentive plans which are performance based, the Company recognizes compensation expense over the vesting periods, based on the then current market values of the underlying stock.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation.

	For the three months ended March 31,	
	2003	**2002**
Net income:		
As reported	$70,010	$63,432
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	508	354
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(3,131)	(2,955)
Pro forma	$67,387	$60,831

Basic and fully diluted net income per:		
Ordinary share		
As reported	$0.72	$0.66
Pro forma	$0.70	$0.63
Preference share		
As reported	$0.74	$0.67
Pro forma	$0.72	$0.64

During the three months ended March 31, 2003, no options were granted to board members or employees. As of March 31, 2003, the Management Board held 350,824 options and employees held 3,192,043 options. In the first quarter of 2003, 14,009 FMC Rollover Plan options were exercised by employees. In connection therewith, Fresenius AG transferred 4,670 Ordinary shares to employees and remitted approximately $20 to the Company. During the same period, no Rollover Plan options were canceled. These funds have been accounted for as a capital contribution within additional paid-in capital.

During the three months ended March 31, 2003, no stock options were exercised under FMC 98 Plan 1 or FMC 98 Plan 2. During the same period, 8,180 stock options were cancelled under FMC 98 Plan 1 and 8,572 were cancelled under FMC 98 Plan 2.

No convertible bonds were exercised and 8,307 were cancelled under the 2001 International Stock Incentive Program in the first quarter of 2003.

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Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)
(in thousands, except share and per share data)

The following tables are reconciliations of the numerators and denominators of the basic and diluted earnings per share computations for the three-month periods ended March 31, 2003 and 2002.

	For the three months ended March 31, 2003	2002
Numerators:		
Net income	$70,010	$63,432
less:		
Preference on Preference shares	416	339
Income available to Preference shares only	416	339
Income available to all classes of shares	$69,594	$63,093
Denominators:		
Weighted average number of:		
Ordinary shares outstanding	70,000,000	70,000,000
Preference shares outstanding	26,188,575	26,176,604
Total weighted average shares outstanding	96,188,575	96,176,604
Potentially dilutive Preference shares	2,238	254,459

Total weighted average shares outstanding assuming dilution	96,190,813	96,431,063
Total weighted average Preference shares outstanding assuming dilution	26,190,813	26,431,063
Basic and fully diluted income per Ordinary share	$0.72	$0.66
Plus preference per Preference shares	0.02	0.01
Basic and fully diluted income per Preference share	$0.74	$0.67

10. Pension Plans

During the first quarter of 2002, the Company recorded a gain of approximately $13,100 resulting from the curtailment of the Company s defined benefit and supplemental executive retirement plans. The Company has retained all employee pension obligations as of the closing date for the fully vested and frozen benefits for all employees.

11. Commitments and Contingencies

Legal Proceedings

Commercial Litigation

The Company was formed as a result of a series of transactions pursuant to the Agreement and Plan of Reorganization (the Merger) dated as of February 4, 1996 by and between W.R. Grace & Co. and Fresenius AG. At the time of the Merger, a W.R. Grace & Co. subsidiary known as W.R. Grace & Co.-Conn. had, and continues to have, significant potential liabilities arising out of product-liability related litigation, pre-Merger tax claims and other claims unrelated to National Medical Care, Inc. (NMC), which was W.R. Grace & Co. s dialysis business prior to the Merger. In connection with the Merger, W.R. Grace & Co.-Conn. agreed to indemnify the Company, FMCH and NMC against all liabilities of W.R. Grace & Co., whether relating to events occurring before or after the Merger, other than liabilities arising from or relating to NMC s operations. W.R. Grace & Co. and certain of its subsidiaries filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the Grace Chapter 11 Proceedings) on April 2, 2001.

FRESENIUS MEDICAL CARE AG

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)
(in thousands, except share and per share data)

Pre-Merger tax claims or tax claims that would arise if events were to violate the tax-free nature of the Merger, could ultimately be the obligation of the Company. In particular, W.R. Grace & Co. has disclosed in its filings with the Securities and Exchange Commission that: its tax returns for the 1993 to 1996 tax years are under audit by the Internal Revenue Service (the Service); W.R. Grace & Co. has received the Service s examination report on tax periods 1993 to 1996; that during those years W.R. Grace & Co. deducted approximately $122,100 in interest attributable to corporate owned life insurance (COLI) policy loans; that W.R. Grace & Co. has paid $21,200 of tax and interest related to COLI deductions taken in tax years prior to 1993; that a U.S. District Court ruling has denied interest deductions of a taxpayer in a similar situation and that W.R. Grace & Co. is seeking a settlement of the Service s claims. Subject to certain representations made by W.R. Grace & Co., the Company and Fresenius AG, W.R. Grace & Co. and certain of its affiliates agreed to indemnify the Company against this and other pre-Merger and Merger related tax liabilities.

Prior to and after the commencement of the Grace Chapter 11 Proceedings, class action complaints were filed against W.R. Grace & Co. and FMCH by plaintiffs claiming to be creditors of W.R. Grace & Co.-Conn., and by the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate in the Grace Chapter 11 Proceedings, alleging among other things that the Merger was a fraudulent conveyance, violated the uniform fraudulent transfer act and constituted a conspiracy. All such cases have been stayed and transferred to or are pending before the U.S. District Court as part of the Grace Chapter 11 Proceedings.

On February 6, 2003, the Company reached a definitive agreement with the asbestos creditors committees on behalf of the W.R. Grace & Co. bankruptcy estate in the matters pending in the Grace Chapter 11 Proceedings for the settlement of all fraudulent conveyance claims against it and other claims related to the Company that arise out of the bankruptcy of W.R. Grace & Co. Subsequently, the settlement agreement was amended and W.R. Grace & Co. was added as a settling party. Under the terms of the settlement agreement as amended (the Settlement Agreement), fraudulent conveyance and other claims raised on behalf of asbestos claimants will be dismissed with prejudice and the Company will receive protection against existing and potential future W.R. Grace & Co. related claims, including fraudulent conveyance and asbestos claims, and indemnification against income tax claims related to the non-NMC members of the W.R. Grace & Co. consolidated tax group upon confirmation of a W.R. Grace & Co. bankruptcy reorganization plan that contains such provisions. Under the Settlement Agreement, the Company will pay a total of $115,000 to the W.R. Grace & Co. bankruptcy estate, or as otherwise directed by the Court, upon plan confirmation. No admission of liability has been or will be made. The Settlement Agreement is subject to the approval of the U.S. District Court. On April 15, 2003, W.R. Grace & Co. and the asbestos creditors committees filed a motion before the U.S. District Court, seeking court approval of the Settlement Agreement and entry of a court order implementing the settlement. The foregoing summary of the material terms of the settlement is qualified in its entirety by reference to the full text of the Settlement Agreement. The Settlement Agreement has been filed with the Securities and Exchange Commission.

Subsequent to the Merger, W.R. Grace & Co. was involved in a multi-step transaction involving Sealed Air Corporation (formerly known as Grace Holding, Inc.). The Company is engaged in litigation with Sealed Air Corporation (Sealed Air) to confirm the Company s entitlement to indemnification from Sealed Air for all losses and expenses incurred by the Company relating to pre-Merger tax liabilities and Merger-related claims. Under the Settlement Agreement, upon confirmation of a plan that satisfies the conditions to the Company s payment obligation, this litigation will be dismissed with prejudice.

In April 2003, the Company, FMCH, NMC, and certain NMC subsidiaries agreed to settle all litigation filed by a group of insurance companies concerning allegations of inappropriate billing practices and misrepresentations and the Company s counterclaims against the plaintiffs in these matters based on inappropriate claim denials and delays in claim payments. The costs of the settlement will be charged against previously established accruals. See Note 2, Special Charge for Legal Matters. Other private payors have contacted the Company

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regarding similar claims and may file their own lawsuit seeking reimbursement and other damages. Although the ultimate outcome on the Company of any such additional proceedings cannot be predicted at this time, an adverse result could have a material adverse effect on the Company s business, financial condition and results of operations.

Other Litigation and Potential Exposures

From time to time, the Company is a party to or may be threatened with other litigation arising in the ordinary course of its business. Management regularly analyzes current information including, as applicable, the Company s defenses and insurance coverage and, as necessary, provides accruals for probable liabilities for the eventual disposition of these matters.

The Company, like other health care providers, conducts its operations under intense government regulation and scrutiny. The Company must comply with regulations which relate to or govern the safety and efficacy of medical products and supplies, the operation of manufacturing facilities, laboratories and dialysis clinics, and environmental and occupational health and safety. The Company must also comply with the U.S. Anti-Kickback Statute, the False Claims Act, the Stark Statute, and other federal and state fraud and abuse laws. Applicable laws or regulations may be amended, or enforcement agencies or courts may make interpretations that differ from the Company s or the manner in which the Company conduct its business. In the U.S., enforcement has become a high priority for the federal government and some states. In addition, the provisions of the False Claims Act authorizing payment of a portion of any recovery to the party bringing the suit encourage private plaintiffs to commence whistle blower actions. By virtue of this regulatory environment, as well as our corporate integrity agreement with the U.S. government, the Company expects that its business activities and practices will continue to be subject to extensive review by regulatory authorities and private parties, and expects continuing inquiries, claims and litigation relating to its compliance with applicable laws and regulations. The Company may not always be aware that an inquiry or action has begun, particularly in the case of whistle blower actions, which are initially filed under court seal.

The Company operates many facilities throughout the U.S. and other parts of the world. In such a decentralized system, it is often difficult to maintain the desired level of oversight and control over the thousands of individuals employed by many affiliated companies. The Company relies upon its management structure, regulatory and legal resources, and the effective operation of its compliance program to direct, manage and monitor the activities of these employees. On occasion, the Company may identify instances where employees, deliberately or inadvertently, have submitted inadequate or false billings. The actions of such persons may subject the Company and its subsidiaries to liability under the Anti-Kickback Statute, the Stark Statute and the False Claims Act, among other laws.

Physicians, hospitals and other participants in the health care industry are also subject to a large number of lawsuits alleging professional negligence, malpractice, product liability, worker s compensation or related claims, many of which involve large claims and significant defense costs. The Company has been subject to these suits due to the nature of its business and the Company expects that those types of lawsuits may continue. Although the Company maintains insurance at a level which it believes to be prudent, the Company cannot assure that the coverage limits will be adequate or that insurance will cover all asserted claims. A successful claim against the Company or any of its subsidiaries in excess of insurance coverage could have a material adverse effect upon the Company and the results of its operations. Any claims, regardless of their merit or eventual outcome, also may have a material adverse effect on the Company s reputation and business.

The Company has also had claims asserted against it and has had lawsuits filed against it relating to businesses that it has acquired or divested. These claims and suits relate both to operation of the businesses and to the acquisition and divestiture transactions. The Company has asserted its own claims, and claims for

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indemnification. Although the ultimate outcome on the Company cannot be predicted at this time, an adverse result could have a material adverse effect upon the Company s business, financial condition, and results of operations.

Accrued Special Charge for Legal Matters

At December 31, 2001, the Company recorded a pre-tax special charge of $258,000 to reflect anticipated expenses associated with the continued defense and resolution of pre-Merger tax claims, Merger-related claims, and commercial insurer claims. The costs associated with the Settlement Agreement and settlement with insurers are charged against this accrual. While the Company believes that its remaining accruals reasonably estimate the Company s currently anticipated costs related to the continued defense and resolution of the remaining matters, no assurances can be given that the actual costs incurred by the Company will not exceed the amount of these accruals.

12. Financial Instruments

Market Risk

The Company is exposed to market risk from changes in interest rates and foreign exchange rates. In order to manage the risk of interest rate and currency exchange rate fluctuations, the Company enters into various hedging transactions with investment grade financial institutions as authorized by the Company s Management Board. The Company does not use financial instruments for trading purposes.

The Company conducts its financial instrument activity under the control of a single centralized department. The Company established guidelines for risk assessment procedures and controls for the use of financial instruments. They include a clear segregation of duties with regard to execution on one side and administration, accounting and controlling on the other.

Foreign Exchange Risk Management

The Company conducts business on a global basis in several international currencies, though its operations are mainly in Germany and the United States. For financial reporting purposes, the Company has chosen the U.S. dollar as its reporting currency. Therefore, changes in the rate of exchange between the U.S. dollar, the euro and the local currencies in which the financial statements of the Company s international operations are maintained, affect its results of operations and financial position as reported in its consolidated financial statements. The Company employs, to a limited extent, forward contracts to hedge its currency exposure. The Company s policy, which has been consistently followed, is that forward currency contracts and options be used only for the purpose of hedging foreign currency exposure.

The Company s exposure to market risk for changes in foreign exchange rates relates to transactions such as sales and purchases, and lending and borrowings, including intercompany borrowings. The Company sells significant amounts of products from its manufacturing facilities in Germany to its other international operations. In general, the German sales are denominated in euro. This exposes the subsidiaries to fluctuations in the rate of exchange between the euro and the currency in which their local operations are conducted.

Changes in the value of foreign currency forward contracts designated and qualifying as cash flow hedges of forecasted product purchases are reported in accumulated other comprehensive income. These amounts are subsequently reclassified into earnings as a component of cost of revenues, in the same period in which the hedged transaction affects earnings. After tax gains of $4,970 ($7,496 pretax) at March 31, 2003 are deferred in accumulated other comprehensive income and will be reclassified into earnings over the next year.

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Changes in the fair value of foreign currency forward contracts designated and qualifying as cash flow hedges for forecasted intercompany financing transactions are reported in accumulated other comprehensive income. After tax gains of $51,768 ($85,357 pretax) at March 31, 2003 were deferred in accumulated other comprehensive income.

The Company s foreign exchange contracts contain credit risk in that its bank counterparties may be unable to meet the terms of the agreements. The potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by other parties.

Interest Rate Risk Management

The Company enters into derivatives, particularly interest rate swaps, to protect interest rate exposures arising from long-term and short-term borrowings and accounts receivable securitization programs at floating rates by effectively swapping them into fixed rates. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

The Company enters into interest rate swap agreements that are designated as cash flow hedges effectively converting certain variable interest rate payments denominated in U.S. dollars into fixed interest rate payments. After tax losses of $59,562 ($99,324 pretax) at March 31, 2003, were deferred in accumulated other comprehensive loss.

The Company enters into interest rate swap agreements that are designated as cash flow hedges effectively converting certain variable interest rate payments denominated in yen into fixed interest rate payments. After tax losses of $355 ($612 pretax) at March 31, 2003, were deferred in accumulated other comprehensive loss.

FMC AG is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments but does not expect any counterparties to fail to meet their obligations. The current credit exposure of derivatives is represented by the fair value of contracts with a positive fair value at the reporting date.

13. Business Segment Information

The Company has identified three segments, North America, International, and Asia Pacific, which were determined based upon how the Company manages its businesses. All segments are primarily engaged in providing kidney dialysis and manufacturing and distributing products and equipment for the treatment of end-stage renal disease. Additionally, the North America segment engages in performing clinical laboratory testing and renal diagnostic services. The Company has aggregated the International and Asia Pacific operating segments as International . The segments are aggregated due to their similar economic characteristics. These characteristics include the same products sold, the same type patient population, similar methods of distribution of products and services and similar economic environments.

Management evaluates each segment using a measure that reflects all of the segment s controllable revenues and expenses. Management believes that the most appropriate measure in this regard is operating income, referred to as earnings before interest and taxes (EBIT) in previous filings. In addition to operating income (EBIT), management believes that earnings before interest, taxes, depreciation and amortization (EBITDA) is helpful for investors as a measurement of the segment s and the Company s ability to generate cash and to service its financing obligations. EBITDA is also the basis for determining compliance with certain covenants contained in the Company s senior bank credit agreement and indentures relating to the Company s trust preferred securities.

EBITDA should not be construed as an alternative to net earnings determined in accordance with generally accepted accounting principles or to cash flow from operations, investing activities or financing activities or as a

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measure of cash flows. Because EBITDA and EBIT not calculated consistently by all companies, the presentation herein may not be comparable to other similarly titled measures of other companies. EBIT as calculated by other companies might not be equivalent to operating income.

Approximately 43% of the Company s worldwide revenue is derived from sources subject to regulations under U.S. governmental programs.

Information pertaining to the Company s business segments for the three-month period ended March 31, 2003 and 2002 is set forth below:

	North America	International	Corporate	Total
Three months ended March 31, 2003				
Net revenue external customers	$929,491	$369,944	$	$1,299,435
Inter-segment revenue	251	8,456	(8,707)	
Total net revenue	929,742	378,400	(8,707)	1,299,435
EBITDA	153,593	73,760	(5,677)	221,676
Depreciation and amortization	(31,360)	(21,002)	(484)	(52,846)

Operating income (EBIT)	122,233	52,758	(6,161)	168,830
Segment assets	5,180,045	1,834,902	37,990	7,052,937
Capital expenditures and acquisitions	40,768	31,009	2	71,779
Three months ended March 31, 2002				
Net revenue external customers	$892,484	$294,020	$	$1,186,504
Inter-segment revenue		7,056	(7,056)	
Total net revenue	892,484	301,076	(7,056)	1,186,504
EBITDA	161,633	66,871	(3,579)	224,925
Depreciation and amortization	(35,317)	(15,554)	(159)	(51,030)
Operating income (EBIT)	126,316	51,317	(3,738)	173,895

Segment assets	5,009,502	1,427,334	47,707	6,484,543
Capital expenditures and acquisitions	29,656	34,092	8	63,756

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	Three months ended March 31, 2003	Three months ended March 31, 2002
Reconciliation of measures to consolidated totals		
Total EBITDA of reporting segments	$227,353	$228,504
Total depreciation and amortization	(52,846)	(51,030)
Corporate expenses	(5,677)	(3,579)
Interest expense	(57,023)	(74,984)
Interest expense on obligation related to settlement		
Interest income	3,277	2,229
Total income before income taxes and minority interest	$115,084	$101,140
Total operating income of reporting segments	174,991	177,633
Corporate expenses	(6,161)	(3,738)
Interest expense	(57,023)	(74,984)
Interest expense on obligation related to settlement		
Interest income	3,277	2,229

Total income before income taxes and minority interest	$115,084	$101,140

14. Supplementary Cash Flow Information

The following additional information is provided with respect to the condensed consolidated statements of cash flows:

	Three months ended March 31,	
	2003	2002
Supplementary cash flow information:		
Cash paid for interest	$53,490	$50,884
Cash paid for income taxes	$30,325	$36,703
Supplemental disclosures of cash flow information:		
Details for acquisitions:		
Assets acquired	$38,655	$11,754
Liabilities assumed	4,745	1,582
Notes assumed in connection with acquisition	5,628	
Cash paid	28,282	10,172
Less cash acquired	199	1,210

Net cash paid for acquisitions	$28,083	$8,962

15. Supplemental Condensed Combining Information

FMC Trust Finance S.à.r.l. Luxembourg and FMC Trust Finance S.à.r.l. Luxembourg-III, each of which is a wholly-owned subsidiary of FMC AG, are the obligors on senior subordinated debt securities which are fully and unconditionally guaranteed, jointly and severally, on a senior subordinated basis, by FMC AG and by Fresenius Medical Care Deutschland GmbH (D-GmbH), a wholly-owned subsidiary of FMC AG, and by FMCH, a substantially wholly-owned subsidiary of FMC (D-GmbH and FMCH being Guarantor Subsidiaries). The

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following combining financial information for the Company is as of March 31, 2003 and December 31, 2002 and for the three-months ended March 31, 2003 and 2002, segregated between FMC AG, D-GmbH, FMCH and each of the Company s other businesses (the Non-Guarantor Subsidiaries). For purposes of the condensed combining information, FMC AG and the Guarantor Subsidiaries carry their investments under the equity method. Other (income) expense includes income (loss) related to investments in consolidated subsidiaries recorded under the equity method for purposes of the condensed combining information. Separate financial statements and other disclosures concerning D-GmbH are not presented herein because management believes that they are not material to investors. FMCH files consolidated financial statements with the United States Securities and Exchange Commission.

Additionally dividends from FMCH, a substantially wholly-owned subsidiary, were limited until February 21, 2003, as a result of a restriction on dividends from its subsidiary, NMC, and its subsidiaries under the 1996 senior credit agreement. As a result of this restriction, parent company only financial information is presented under the column FMC AG. Under the 2003 Senior Credit Agreement (see Note 3), intercompany dividends are no longer restricted.

	For the three month period ended March 31, 2003					
		Guarantor Subsidiaries				
	FMC AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Net revenue	$	$186,525	$	$1,318,900	$(205,990)	$1,299,435
Cost of revenue		115,983		971,892	(205,388)	882,487
Gross profit		70,542		347,008	(602)	416,948

Operating expenses:

Selling, general and administrative	4,702	32,347		198,414	1,712	237,175
Research and development	431	7,541		2,971		10,943
Operating (loss) income	(5,133)	30,654		145,623	(2,314)	168,830

Other (income) expense:

Interest, net	7,288	3,537	12,977	39,144	(9,200)	53,746
Other, net	(90,332)	16,691	(53,095)		126,736	

Income before income taxes and minority interest	77,911	10,426	40,118	106,479	(119,850)	115,084
Income tax expense (benefit)	7,901	12,007	(5,191)	43,721	(13,901)	44,537
Income before minority interest	70,010	(1,581)	45,309	62,759	(105,949)	70,547
Minority interest					537	537
Net income	$70,010	$(1,581)	$45,309	$62,759	$(106,486)	$70,010

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	For the three month period ended March 31, 2002					
		Guarantor Subsidiaries				
	FMC AG	D-GmbH	FMCH	Non-Guarantor Subsidiaries	Combining Adjustment	Combined Total
Net revenue	$	$154,966	$	$1,197,353	$(165,815)	$1,186,504
Cost of revenue		94,344		877,391	(162,553)	809,182
Gross profit		60,622		319,962	(3,262)	377,322
Operating expenses:						
Selling, general and administrative	2,754	21,509		169,855		194,118
Research and development	43	6,613		2,653		9,309

Operating (loss) income	(2,797)	32,500		147,454	(3,262)	173,895
Other (income) expense:						
Interest, net	6,551	2,058	16,697	55,872	(8,423)	72,755
Other, net	(81,925)	18,303	(50,476)		114,098	
Income before income taxes and minority interest	72,577	12,139	33,779	91,582	(108,937)	101,140
Income tax expense (benefit)	9,145	11,756	(6,679)	34,329	(11,703)	36,848

Income before minority interest	63,432	383	40,458	57,253	(97,234)	64,292
Minority interest					860	860
Net income	$63,432	$383	$40,458	$57,253	$(98,094)	$63,432