NEOGENOMICS INC
Form SC 13G/A
February 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G/A
Under the Securities Exchange Act of 1934
(Amendment No. 1)

Neogenomics, Inc.
(Name of Issuer)

Common Stock
(Title of Class of Securities)

64049M209
(CUSIP Number)

December 31, 2008
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)

[X] Rule 13d-1(c)

[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 64049M209

1. Names of Reporting Person
   I.R.S. Identification Nos. of above person

   RMB Capital Management, LLC 59-3792751

2. Check the Appropriate Box if a Member Of a Group

   [ ] (a)
   [ ] (b)

3. SEC Use Only

4. Citizenship or Place of Organization

Delaware Limited Liability Company

Number of Shares Beneficially Owned by Each Reporting Person With	5.	Sole Voting Power: 463,610
	6.	Shared Voting Power: 3,172,615
	7.	Sole Dispositive Power: 463,610
	8.	Shared Dispositive Power: 3,172,615

9. Aggregate Amount Beneficially Owned by Each Reporting Person

   3,636,225

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares

11. Percent of Class Represented by Amount in Row (9)

    11.47%

12. Type of Reporting Person

    IA

CUSIP No. 64049M209

1. Names of Reporting Person
   I.R.S. Identification Nos. of above person

   1837 RMB Managers L.L.C. 20-4493541

2. Check the Appropriate Box if a Member Of a Group

   [ ] (a)
   [ ] (b)

3. SEC Use Only

4. Citizenship or Place of Organization

   Delaware Limited Liability Company

Number of Shares Beneficially Owned by Each Reporting Person With	5.	Sole Voting Power: None
	6.	Shared Voting Power: 3,172,615
	7.	Sole Dispositive Power: None
	8.	Shared Dispositive Power: 3,172,615

9. Aggregate Amount Beneficially Owned by Each Reporting Person

   3,172,615

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares

11. Percent of Class Represented by Amount in Row (9)

10.00%

12. Type of Reporting Person

OO

CUSIP No. 64049M209

1. Names of Reporting Person
I.R.S. Identification Nos. of above person

1837 Partners L.P. 20-4502386

2. Check the Appropriate Box if a Member Of a Group

[ ] (a)
[ ] (b)

3. SEC Use Only

4. Citizenship or Place of Organization

Delaware Limited Partnership

Number of Shares Beneficially Owned by Each Reporting Person With	5. Sole Voting Power: None
	6. Shared Voting Power: 1,697,751
	7. Sole Dispositive Power: None
	8. Shared Dispositive Power: 1,697,751

9. Aggregate Amount Beneficially Owned by Each Reporting Person

1,697,751

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares

11. Percent of Class Represented by Amount in Row (9)

5.35%

12. Type of Reporting Person

PN

Item 1. (a) Issuer: Neogenomics, Inc.

Address:

12701 Commonwealth Drive, Suite 9
Fort Myers, FL 33913

Item 2. (a) Name of Person Filing:

(i) RMB Capital Management, LLC
(ii) 1837 RMB Managers L.L.C.

(iii) 1837 Partners L.P.

(b) Address of Principal Business Offices:

115 S. LaSalle Street
34th Floor
Chicago, IL 60603

(c) Citizenship:
Please refer to Item 4 on each cover sheet for each Reporting Person

(d) Title of Class of Securities
Common Stock

(e) CUSIP Number: 64049M209

Item 3. If this statement is filed pursuant to rule 240.13d- 1(b),or 240.13d-2(b) or (c), check whether the person filing is a:

(a) |_| Broker or dealer registered under section 15 of the Act (15 U.S.C.78c).

(b) |_| Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) |_| Insurance company as defined in section 3(a)19) of the Act (15 U.S.C. 78c).

(d) |_| Investment Company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

(e) |X| An investment adviser in accordance with 240.13d-1(b)1)(ii)(E).

(f) |_| An employee benefit plan or endowment fund in accordance with 240.13d-1(b)(1)(ii)(F).

(g) |_| A parent holding company or control person in accordance with 240.13d-1(b)(1)(ii)(G)

(h) |_| A savings association as defined in section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813).

(i) |_| A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3).

(j) |_| Group, in accordance with section 240.13d-1(b)(1)(ii)(J).

Item 4. Ownership

Please see Items 5 - 9 and 11 on each cover sheet for each Reporting Person

Item 5. Ownership of Five Percent or Less of a Class

Not Applicable

Item 6. Ownership of More than Five Percent on Behalf of Another Person

Not Applicable

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

Not Applicable

Item 8. Identification and Classification of Members of the Group

Not Applicable

Item 9. Notice of Dissolution of Group

Not Applicable

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 12, 2009

RMB Capital Management, LLC

By: /s/ Richard M. Burridge, Jr.

Name: Richard M. Burridge, Jr.
Title: Managing Principal

1837 RMB Managers L.L.C.

By: /s/ Richard M. Burridge, Jr.

Name: Richard M. Burridge, Jr.
Title: Managing Principal

1837 Partners L.P.

By: 1837 RMB Managers L.L.C.
Its General Partner

By: RMB Capital Management, LLC
The Advisor

/s/ Richard M. Burridge, Jr.

Name: Richard M. Burridge, Jr.
Title: Managing Principal

JOINT FILING AGREEMENT

RMB Capital Management, LLC (an investment adviser registered under the Investment Advisers Act of 1940); 1837 Partners L.P., a Delaware Limited Partnership; and 1837 RMB Managers L.L.C., a Delaware Limited Liability Company, hereby agree to file jointly the statement on this Schedule 13G/A to which this Agreement is attached, and any amendments thereto which may be deemed necessary.

It is understood and agreed that each of the parties hereto is responsible for the timely filing of such statement and any amendments thereto, and for the completeness and accuracy of the information concerning such party contained therein, but such party is not responsible for the completeness or accuracy of information concerning the other party unless such party knows or has reason to believe that such information is inaccurate.

It is understood and agreed that a copy of this Agreement shall be attached as an exhibit to the statement on Schedule 13G/A, and any amendments thereto, filed on behalf of each of the parties herto.

Date: February 12, 2009

RMB Capital Management, LLC

By: /s/ Richard M. Burridge, Jr.

Name: Richard M. Burridge, Jr.
Title: Managing Principal

1837 RMB Managers L.L.C.

By: /s/ Richard M. Burridge, Jr.

Name: Richard M. Burridge, Jr.
Title: Managing Principal

1837 Partners L.P.

By: 1837 RMB Managers L.L.C.
Its General Partner

By: RMB Capital Management, LLC
The Advisor

/s/ Richard M. Burridge, Jr.

Name: Richard M. Burridge, Jr.
Title: Managing Principal

r ended December 31, 2001, 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. Effective on both January 1, 2000 and January 1, 2001, Congress increased the Medicare composite rate by 1.2% each year. An additional increase of 1.2% took effect April 1, 2001. The April 1, 2001 increase included an adjustment factor that made that 1.2% increase effective for all of 2001. Accordingly, the net result of the 1.2% increases on January 1, 2001 and April 1, 2001, plus the April adjustment factor, was an effective increase of 2.4% for calendar year 2001. Neither Congress nor CMS approved an increase in the composite rate for 2002. The Medicare composite rate applies to a designated group of outpatient dialysis services, including the dialysis treatment, supplies used for such treatment, certain laboratory tests and medications, and most of the home dialysis services provided by

Renal Care Group. Certain other services, laboratory tests, and drugs are eligible for separate reimbursement under Medicare and are not part of the composite rate, including specific drugs such as EPO and certain physician-ordered tests provided to dialysis patients. For patients with private health insurance, dialysis is typically reimbursed at rates higher than Medicare during the first 30 months of treatment. After that period Medicare becomes the primary payor. Reimbursement for dialysis services provided pursuant to a hospital contract is negotiated with the individual hospital and generally is higher on a per treatment equivalent basis than the Medicare composite rate. Because dialysis is a life-sustaining therapy used to treat a chronic disease, utilization is predictable and is not subject to seasonal fluctuations. 27 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. In May 2001, Amgen implemented its second increase of 3.9% in as many years. This increase did not affect Renal Care Group's results of operations in 2001 because Renal Care Group's contract with Amgen included price protection for all of 2001. Management believes this 2001 increase will adversely affect earnings in 2002 by up to $0.05 per share, if Renal Care Group is unable to mitigate the price increase through its contract with Amgen or other means. Based on the status of discussions with Amgen and the Company's contract with Amgen for the year 2002, management believes that Renal Care Group may be able to mitigate between 20% and 25% of this adverse effect; however, the Company can give no assurances in regard to its ability to mitigate the price increase. CRITICAL ACCOUNTING POLICIES On December 12, 2001, the Securities and Exchange Commission issued a financial reporting release, FR-60, Cautionary Advice Regarding Disclosure About Critical Accounting Policies. In accordance with FR-60, management has identified the following accounting policies that it considers critical to the business of Renal Care Group. These policies were identified based on their importance to the Consolidated Financial Statements as well as on the degrees of subjectivity and complexity involved in these policies. In addition to these critical policies, a summary of significant accounting policies is included in the notes to the Company's Consolidated Financial Statements, contained elsewhere in this annual report on Form 10-K. Net Revenue and Contractual Provisions The Company recognizes revenues net of contractual provisions as services are provided. Contractual provisions represent the difference between Renal Care Group's gross billed charges and the amount the Company expects to receive. Under the Medicare ESRD program, Medicare reimbursement rates for outpatient dialysis treatments are fixed under a composite rate structure. The composite rate applies to a designated group of outpatient dialysis services, including the dialysis treatment, supplies for such treatment, certain laboratory tests and certain medications. There are other drugs, laboratory tests and services that are eligible for separate reimbursement outside the composite rate. Most state Medicaid plans follow similar reimbursement methodologies used by the Medicare program, but other payors, such as private insurance plans and managed care payors, reimburse Renal Care Group under established contractual arrangements. Each of these payor sources provides unique challenges to the process of recording contractual provisions. Renal Care Group has made significant investments in human resources and information systems, which enable its computerized billing systems to estimate the appropriate amount of contractual provisions to record as services are provided. Actual levels of reimbursement, however, are sometimes difficult to determine due to the complexity of the applicable regulations or payor contracts. As a result, Renal Care Group may in fact collect more or less than the amount expected when the services are provided. In addition, regulations and contracts may be changed, making system updates and maintenance necessary for an accurate estimation of net revenue. As a result, management may make adjustments to the contractual provisions estimated by the system based on actual collection experience and other factors. Provision for Doubtful Accounts Collecting its outstanding receivable balances is critical to the success of the Company. Renal Care Group's primary source of collection risk is related to the portion of its gross charges for which the patient is responsible. The patients' responsibility is typically 15-20% of gross charges. The Company records its estimate of the provision 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 and monitors the net collectibility of accounts receivable based upon a variety of factors, including the analysis of payor mix, subsequent collection analysis and review of detailed accounts receivable agings. Significant changes in payor mix or business office operations of Renal Care Group could have a significant impact on Renal Care Group's results of operations and cash flows. 28 Self Insurance Accruals From time to time, Renal Care Group is subject to medical malpractice or workers compensation claims or lawsuits in the ordinary course of business. To mitigate a portion of this risk, the Company maintains insurance for malpractice claims exceeding certain individual and aggregate amounts and workers compensation claims exceeding certain individual and aggregate amounts. The Company estimates its self-insured retention portion of these malpractice and workers compensation risks using historical claims data, demographic factors and other assumptions. The estimated accrual for malpractice and workers compensation claims could be significantly affected if current and future occurrences differ from historical claims trends. While management monitors current claims closely and considers outcomes when estimating its insurance accruals, the complexity of the claims and the wide range of potential outcomes often complicate the Company's ability to make precise estimates. Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of Renal Care Group reviews its long-lived assets and identifiable intangibles for impairment whenever management identifies events or changes in circumstances that indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. The computation of future net cash flows is often complex and includes subjective assumptions. If management determines that assets are impaired, then impairment is equal to the amount by which the carrying amount of the assets exceeds the fair value of the assets, as determined by independent appraisals or estimates of discounted future cash flows. RESULTS OF OPERATIONS The following table sets forth results of operations (in thousands) for the periods indicated and the percentage of net revenue represented by the respective financial line items: YEAR ENDED DECEMBER 31, --- 1999 2000 2001 -------------------- -------------------- -------------------- Net revenue .... $ 541,895 100.0% $ 622,575 100.0% $ 755,082 100.0% Patient care costs .... 351,367 64.8 402,009 64.6 489,271 64.8 General and administrative expenses .... 51,315 9.5 57,104 9.2 64,530 8.5 Provision for doubtful accounts .... 14,632 2.7 16,949 2.7 20,290 2.7 Depreciation and amortization .... 27,835 5.1 32,321 5.2 38,945 5.2 Restructuring charge .... -- -- 9,235 1.5 -- -- Merger expenses .... 4,300 0.8 3,766 0.6 -- -- ---------- ------- ---------- ------- ---------- ------- Total operating costs and expenses ..... 449,449 82.9 521,384 83.7 613,036 81.2 ---------- ------- ---------- ------- ---------- ------- Income from operations .... 92,446 17.1 101,191 16.3 142,046 18.8 Interest expense, net .... 6,224 1.1 5,015 0.8 2,636 0.3 Minority interest .... 7,768 1.4 10,011 1.6 15,478 2.0 ---------- ------- ---------- ------- ---------- ------- Income before income taxes .... 78,454 14.5 86,165 13.8 123,932 16.4 Income tax expense .... 31,367 5.8 34,706 5.6 47,331 6.3 ---------- ------- ---------- ------- ---------- ------- Net income .... $ 47,087 8.7% $ 51,459 8.3% $ 76,601 10.1% ========== ======= ========== ======= ========== ======= 29 YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000 Net Revenue. Net revenue increased from $622.6 million for the year ended December 31, 2000 to $755.1 million for the year ended December 31, 2001, an increase of $132.5 million, or 21.3%. This increase resulted primarily from an 11.1% increase in the number of treatments from 2,418,619 in 2000 to 2,686,181 in 2001 and an increase in the average net revenue per dialysis treatment. The growth in treatments was the result of the acquisition and development of various dialysis facilities and a 5.4% increase in same-center treatments for 2001 over 2000. In addition, average net revenue per dialysis treatment increased 10.8% from $251 in 2000 to $278 in 2001. The increase in revenue per treatment was generally due to the implementation of price increases to commercial payors implemented beginning in the fourth quarter of 2000, a stronger payor mix in two businesses acquired in the fourth quarter of 2000, the effect of the 2.4% increase in the Medicare ESRD composite rate and increases in the utilization of certain drugs. 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 $402.0 million for the year ended December 31, 2000 to $489.3 million for the year ended December 31, 2001, an increase of 21.7%. 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 increased from 64.6% in 2000 to 64.8% in 2001. Patient care costs per treatment increased 9.6% from $166 in 2000 to $182 in 2001. These increases were due to increased labor costs to address wage pressures in many of the Company's markets, the increase in the utilization of certain drugs and generally higher patient care costs in two businesses acquired in the fourth quarter of 2000. Management expects continued labor wage pressures and increases in medical malpractice costs to occur in 2002. General and Administrative Expenses. General and administrative expenses include corporate office costs and facility costs not directly related to the care of patients, including facility administration, accounting, billing and information systems. General and administrative expenses increased from $57.1 million for the year ended December 31, 2000 to $64.5 million for the year ended December 31, 2001, an increase of 13.0%. General and administrative expenses as a percentage of net revenue decreased from 9.2% in 2000 to 8.5% in 2001, primarily as the result of leveraging general and administrative costs over a larger base of business as acquisitions have been integrated without a corresponding increase in general and administrative expense. Provision for Doubtful Accounts. The provision for doubtful accounts is determined 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. The provision for doubtful accounts increased from $16.9 million in 2000 to $20.3 million in 2001, an increase of approximately $3.4 million, or 20.1%. The provision for doubtful accounts as a percentage of net revenue remained consistent at 2.7% in both 2000 and 2001. Depreciation and Amortization. Depreciation and amortization increased from $32.3 million for the year ended December 31, 2000 to $38.9 million for the year ended December 31, 2001, an increase of 20.4%. This 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 goodwill and other intangible assets associated with acquisitions closed prior to June 30, 2001, that were accounted for as purchases. Restructuring Charge. The Company recorded a restructuring charge of $9.2 million during 2000. The charge resulted from the Company's decision to cease providing wound care services and to focus on its core dialysis business. The restructuring charge principally represented impairment charges for goodwill and property and equipment associated with the wound care business along with anticipated severance costs, contract termination costs and other associated charges. During the second quarter of 2001, the Company sold certain assets and transferred certain liabilities associated with the wound care business in a transaction with a third party. Proceeds from this transaction equaled the net book value of the assets sold less liabilities transferred; accordingly, no gain or loss was recognized in 2001. Merger Expenses. Merger expenses of $3.8 million for the year ended December 31, 2000, represent legal, accounting and employee severance costs and related benefits and other costs associated with the assimilation and transition of the merger with Renal Disease Management by Physicians, Inc. 30 Income from Operations. Income from operations increased from $101.2 million for the year ended December 31, 2000 to $142.0 million for the year ended December 31, 2001, an increase of 40.3%. Income from operations as a percentage of net revenue increased from 16.3% in 2000 to 18.8% in 2001 largely as a result of the factors discussed above. Interest Expense, Net. Interest expense of $2.6 million for the year-ended December 31, 2001 decreased $2.4 million compared to $5.0 million for the year ended December 31, 2000. The decrease was the result of lower average borrowings as the Company successfully repaid all amounts due under its outstanding line of credit, which amounts were $54.0 million at the beginning of the year. Minority Interest. Minority interest represents the proportionate equity interest of other partners in the Company's consolidated entities that are not wholly owned whose financial results are included in the Company's consolidated results. Minority interest as a percentage of net revenue increased to 2.0% in 2001 from 1.6% in 2000. This increase was the result of the continued expansion of the operations of Renal Care Group's joint ventures, primarily those in Ohio, Washington, and Oregon, as well as an increase in the number of facilities operated as joint ventures. Provision for Income Taxes. Income tax expense increased from $34.7 million in 2000 to $47.3 million in 2001, an increase of $12.6 million or 36.3%. The increase is a result of pre-tax earnings increasing by 43.8%. The Company's effective tax rate decreased from 40.3% in 2000 to 38.2% in the current year. This decrease is primarily the result of certain non-deductible costs in 2000 that resulted from the restructuring charge described above and certain non-deductible merger costs incurred in 2000. Net Income. Net income increased from $51.5 million in 2000 to $76.6 million in 2001, an increase of $25.1 million or 48.7%. This increase is a result of the items discussed above. YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999 Net Revenue. Net revenue increased from $541.9 million for the year ended December 31, 1999 to $622.6 million for the year ended December 31, 2000, an increase of $80.7 million, or 14.9%. This increase resulted primarily from a 9.2% increase in the number of treatments from 2,215,728 in 1999 to 2,418,619 in 2000. This growth in treatments was the result of the acquisition and development of various dialysis facilities and a 7.1% increase in same-center treatments for 2000 over 1999. In addition, average net revenue per dialysis treatment increased 5.9% from $237 in 1999 to $251 in 2000. The increase in revenue per treatment was due to an improvement in the Company's payor mix, the 1.2% increase in the Medicare ESRD composite rate, increases in the utilization of some drugs, and increases in acute hospital services. 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 $351.4 million for the year ended December 31, 1999 to $402.0

million for the year ended December 31, 2000, an increase of 14.4%. This increase was due 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 64.8% in 1999 to 64.6% in 2000. Patient care costs per treatment increased 4.4% from $159 in 1999 to $166 in 2000. This increase was due to Amgen's 3.9% increase in the price of EPO, increased labor costs to address wage pressures in many of the Company's markets, the cost of providing in-house laboratory services and other health care inflation. General and Administrative Expenses. General and administrative expenses include corporate office costs and facility costs not directly related to the care of patients, including facility administration, accounting, billing and information systems. General and administrative expenses increased from $51.3 million for the year ended December 31, 1999 to $57.1 million for the year ended December 31, 2000, an increase of 11.3%. General and administrative expenses as a percentage of revenue decreased from 9.5% in 1999 to 9.2% in 2000, primarily as the result of the increase in net revenue for 2000. Provision for Doubtful Accounts. The provision for doubtful accounts is determined 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. The 31 provision for doubtful accounts increased from $14.6 million in 1999 to $16.9 million in 2000, an increase of $2.3 million, or 15.8%. The provision for doubtful accounts as a percentage of net revenue remained consistent at 2.7% in both 1999 and 2000. Depreciation and Amortization. Depreciation and amortization increased from $27.8 million for the year ended December 31, 1999 to $32.3 million for the year ended December 31, 2000, an increase of 16.2%. This 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 goodwill and other intangible assets associated with acquisitions accounted for as purchases. Restructuring Charge. The Company recorded a restructuring charge of $9.2 million during 2000. The charge resulted from the Company's decision to cease providing wound care services on or before June 30, 2001 and to focus on its core dialysis business. The restructuring charge principally represented impairment charges for goodwill and property and equipment associated with the wound care business along with anticipated severance costs, contract termination costs and other associated charges. During the second quarter of 2001, the Company sold certain assets and transferred certain liabilities associated with the wound care business in a transaction with a third party. Proceeds from this transaction equaled the net book value of the assets sold less liabilities transferred; accordingly, no gain or loss was recognized in 2001. Merger Expenses. Merger expenses of $3.8 million for the year ended December 31, 2000, represent legal, accounting and employee severance costs and related benefits and other costs associated with the assimilation and transition of the merger with Renal Disease Management by Physicians, Inc. Merger expenses of $4.3 million for the year ended December 31, 1999, represent legal, accounting and employee severance costs and related benefits and other costs associated with the assimilation and transition of the merger with Dialysis Centers of America, Inc. Income from Operations. Income from operations increased from $92.4 million for the year ended December 31, 1999 to $101.2 million for the year ended December 31, 2000, an increase of 9.5%. Income from operations as a percentage of net revenue decreased from 17.1% in 1999 to 16.3% in 2000 largely as a result of the restructuring charge and other factors discussed above. Interest Expense, Net. Interest expense of $5.0 million for the year-ended December 31, 2000 decreased $1.2 million compared to $6.2 million for the year ended December 31, 1999. The decrease was principally the result of lower average borrowings during 2000. Minority Interest. Minority interest represents the proportionate equity interest of other partners in the Company's consolidated entities that are not wholly owned; whose financial results are included in the Company's consolidated results. Minority interest as a percentage of net revenue increased to 1.6% in 2000 from 1.4% in 1999. This increase was the result of continued operational improvements in the operations of Renal Care Group's joint ventures, primarily those in Ohio and Oregon. Income Tax Expense. Income tax expense increased from $31.4 million in 1999 to $34.7 million in 2000, an increase of 10.5%. The increase is a result of pre-tax earnings increasing by approximately 9.8%. In addition, the Company's effective income tax rate increased from 40.0% to 40.3% in 2000 largely as a result of non-deductible merger costs and non-deductible restructuring charges incurred during 2000. Net Income. Net income increased from $47.1 million in 1999 to $51.5 million in 2000, an increase of 9.3%. This 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, and to finance working capital needs. At December 31, 2001, the Company's working capital was $102.8 million; cash and cash equivalents were $27.4 million; and the Company's current ratio was 1.9 to 1.0. Renal Care Group's working capital increased during the year primarily as a result of acquisitions and the increase in operating cash flows. Net cash provided by operating activities was $133.2 million for the year ended December 31, 2001. Cash provided by operating activities consists of net income before depreciation and amortization expense, adjusted for changes in components of working capital. Net cash used in investing activities was $107.4 million for the year ended December 31, 2001. Cash used in investing activities consisted primarily of $65.7 million of purchases of property and equipment and $38.4 million of cash paid 32 for acquisitions, net of cash acquired. Net cash used in financing activities was $28.3 million for the year ended December 31, 2001. Cash used in financing activities primarily reflects $54.0 million in net payments under Renal Care Group's line of credit partially offset by $29.3 million in net proceeds from the issuance of common stock upon the exercise of stock options. The Company is a party to a Second Amendment to its First Amended and Restated Loan Agreement with a group of banks. Lender commitments under the amended loan agreement were reduced to $129.5 million in August 2001. Borrowings under the credit facility may be used for acquisitions, capital expenditures, working capital and general corporate purposes. No more than $25.0 million of the credit facility may be used for working capital purposes. Within the working capital sublimit, Renal Care Group may borrow up to $5.0 million in swing line loans. Lender commitments will remain at $129.5 million through August 2002, and will then be reduced to $101.8 million through August 2003. To the extent any amounts are outstanding under this line of credit, these amounts will be due and payable in full on August 4, 2003. As of December 31, 2001, no amount was outstanding under this agreement. This variable rate debt instrument carries a degree of interest rate risk. Specifically variable rate debt may result in higher interest costs to the Company if interest rates rise. Each of Renal Care Group's subsidiaries has guaranteed all of Renal Care Group's obligations under the loan agreement. Further, Renal Care Group's obligations under the loan agreement, 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 this commitment. 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 of Renal Care Group believes that existing cash and funds from operations, together with funds available under the line of credit, 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 incur additional short and long-term bank indebtedness and may issue equity or debt securities. The availability and terms of any future indebtedness or securities will depend on market and other conditions. There can be no assurance that any additional financing, if required, will be available on terms acceptable to Renal Care Group. Capital expenditures of between $50.0 million and $55.0 million, primarily for equipment replacement, expansion of existing dialysis facilities and construction of de novo dialysis facilities are planned in 2002. The Company expects that these capital expenditures will be funded with cash provided by operating activities and the Company's existing credit facility. 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 its common stock in accordance with a repurchase plan authorized by the Board of Directors in October 2000. In the fourth quarter of 2001, Renal Care Group repurchased 100,000 shares of common stock for approximately $3.1 million. In the first quarter of 2002, Renal Care Group repurchased 280,000 shares of common stock for approximately $8.3 million. Management expects to repurchase additional shares of common stock during 2002. On January 22, 2002, the Securities and Exchange Commission issued a financial reporting release, FR-61, Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations. This release encourages public companies to give investors additional information about funds that will be required to operate its business in the future under agreements that are in place today. In accordance with FR-61, the following table gives information about the Company's existing contractual obligations. At December 31, 2001, Renal Care Group had no significant contingent commitments. 33 Payments Due by Period (In thousands) Less than 1 Contractual Obligations Total year 1 - 3 years 3 - 5 years After 5 years
-- Capital leases and

other notes payable $ 4,502 $ 726 $ 1,014 $ 456 $ 2,306 Operating leases 118,053 19,614 33,675 24,987 39,777 Medical director fee obligations 75,754 15,531 25,441 18,135 16,647 ---------- --------- --------- --------- --------- Total contractual cash obligations $ 198,309 $ 35,871 $ 60,130 $ 43,578 $ 58,730 ========== ========= ========= ========= ========= NEWLY ISSUED ACCOUNTING STANDARDS On June 29, 2001, the Financial Accounting Standards Board approved the issuance of Statements of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141), and No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 141 eliminates the pooling-of-interests method of accounting for all business combinations except those initiated prior to July 1, 2001. Additionally, this statement changes the criteria to recognize intangible assets apart from goodwill. SFAS No. 142 supersedes APB Opinion No. 17, Intangible Assets, that previously required goodwill and intangible assets be amortized over a life not to exceed 40 years. Under SFAS No. 142, goodwill and other intangible assets with indefinite lives will no longer be amortized but must be reviewed at least annually for impairment. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. SFAS No. 142 does not impose a limit on the useful lives of separable intangible assets. The provisions of SFAS No. 142 apply currently to goodwill and intangible assets acquired after June 30, 2001 and upon adoption of the statement with respect to goodwill and intangibles acquired prior to July 1, 2001. Management believes the impact of the application of the provisions of SFAS No. 142 relating to the amortization of goodwill will favorably affect the Company's earnings in 2002 by up to $0.05 per share. During 2002, Renal Care Group will finalize its testing for goodwill impairment using the two-step process described in SFAS No. 142. The first step is a screen for potential impairment, while the second step measures the amount, if any, of impairment. Management expects to complete the first of the required impairment tests of goodwill and indefinite lived intangible assets during the first six months of 2002. While preliminary results of this testing indicate no potential impairment exists, to the extent such impairments are identified, the resulting charges will be reflected as the cumulative effect of a change in accounting principle as of January 1, 2002. We have not yet determined what the effect of these tests will be on our financial position or results of operations. In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS No. 144 removes goodwill from its scope and clarifies other implementation issues related to SFAS No. 121. SFAS No. 144 also provides a single framework for evaluating long-lived assets to be disposed of by sale. We have reviewed the provisions of SFAS No. 144 and believe that upon adoption, it will not have a significant effect on our consolidated financial position or results of operations. IMPACT OF INFLATION A substantial portion of Renal Care Group's net revenue is subject to reimbursement rates that are regulated by the federal government and do not automatically adjust for inflation. Renal Care Group is unable to increase the amount it receives for the services provided by its dialysis business that are reimbursed under the Medicare composite rate. Increased operating costs due to inflation, such as labor and supply costs, without a corresponding increase in reimbursement rates, may adversely affect Renal Care Group's results of operations, financial condition and business. FORWARD-LOOKING INFORMATION Certain of the matters discussed in the preceding pages of this annual report on Form 10-K, particularly regarding implementation of the Company's strategy, development of the dialysis and nephrology industries, anticipated growth 34 and revenues, anticipated working capital and sources of funding for growth opportunities and construction, expenditures, interest, costs and income constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended. See "The Business - Risk Factors" ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Renal Care Group maintains all cash in United States dollars in highly liquid, interest-bearing, investment grade instruments with maturities of less than three months, which the Company considers cash equivalents; therefore, the Company has no "market risk sensitive instruments," and no disclosure is required under this Item. ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA The Consolidated Financial Statements and financial statement schedule in Part IV, Item 14(a) (1) and (2) of the report are incorporated by reference into this Item 8. ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE None. 35 PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY The information required by this item will appear in, and is incorporated by reference from, the sections entitled "Proposals for Stockholder Action - Proposal 1.

Election of Directors" and "Management - Directors and Executive Officers" included in the Company's definitive Proxy Statement relating to the 2002 Annual Meeting of Stockholders. ITEM 11. EXECUTIVE COMPENSATION The information required by this item will appear in the section entitled "Executive Compensation" included in the Company's definitive Proxy Statement relating to the 2002 Annual Meeting of Stockholders, which information, other than the Compensation Committee Report and Performance Graph required by Items 402(k) and (l) of Regulation S-K, is incorporated herein by reference. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The information required by this item will appear in, and is incorporated by reference from, the section entitled "Security Ownership of Directors, Officers and Principal Stockholders" included in the Company's definitive Proxy Statement relating to the 2002 Annual Meeting of Stockholders. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS The information required by this item will appear in, and is incorporated by reference from, the sections entitled "Compensation Committee Interlocks and Insider Participation" and "Certain Relationships and Related Transactions" included in the Company's definitive Proxy Statement relating to the 2002 Annual Meeting of Stockholders. 36 PART IV ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (a) Documents filed as part of this Report: PAGE ---- (1) Index To Consolidated Financial Statements Report of Independent Auditors... F-1 Consolidated Balance Sheets at December 31, 2000 and 2001... F-2 Consolidated Income Statements for the years ended December 31, 1999, 2000, and 2001.. F-4 Consolidated Statements of Stockholders' Equity for the years ended December 31, 1999, 2000, and 2001.. F-5 Consolidated Statements of Cash Flows for the years ended December 31, 1999, 2000, and 2001.. F-6 Notes to Consolidated Financial Statements... F-8 (2) Index to Consolidated Financial Statement Schedules Schedule II - Consolidated Schedule-Valuation and Qualifying Accounts.. F-24 (3) The Exhibits are listed in the Index of Exhibits Required by Item 601 of Regulation S-K included herewith, which is incorporated herein by reference. (b) The Company filed a current report on Form 8-K on October 31, 2001. The Company filed a current report on Form 8-K on December 12, 2001. 37 REPORT OF INDEPENDENT AUDITORS The Board of Directors Renal Care Group, Inc. We have audited the accompanying consolidated balance sheets of Renal Care Group, Inc. as of December 31, 2000 and 2001, and the related consolidated income statements, statements of stockholders' equity, and statements of cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Renal Care Group, Inc. at December 31, 2000 and 2001 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. /s/ ERNST & YOUNG LLP Nashville, Tennessee February 16, 2002 F-1 RENAL CARE GROUP, INC. CONSOLIDATED BALANCE SHEETS DECEMBER 31 ------------------------ 2000 2001 -------- -------- (IN THOUSANDS) ASSETS Current assets: Cash and cash equivalents .... $ 29,902 $ 27,423 Accounts receivable, less allowance for doubtful accounts of $47,392 in 2000 and $45,260 in 2001 .... 122,816 127,056 Inventories .... 12,881 16,292 Prepaid expenses and other current assets .... 19,188 18,584 Income taxes receivable .... 5,426 7,058 Deferred income taxes .... 19,294 16,894 -------- -------- Total current assets .... 209,507 213,307 Property, plant and equipment, net .... 139,573 175,925 Goodwill and other intangibles, net 228,227

256,622 Other assets .... 5,365 6,403 -------- -------- Total assets .... $582,672 $652,257 ======== ======== See accompanying notes to consolidated financial statements. F-2 RENAL CARE GROUP, INC. CONSOLIDATED BALANCE SHEETS DECEMBER 31 ----------------------- 2000 2001 -------- -------- (IN THOUSANDS) LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable .... $ 25,951 $ 28,198 Accrued compensation .... 28,714 32,048 Due to third-party payors .... 27,050 27,699 Accrued expenses and other current liabilities .... 18,401 21,797 Current portion of long-term debt .... 476 726 -------- -------- Total current liabilities .... 100,592 110,468 Long-term debt, net of current portion .... 58,316 3,776 Deferred income taxes .... 13,640 12,728 Minority interest .... 16,002 15,034 -------- -------- Total liabilities .... 188,550 142,006 -------- -------- 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, 47,087 and 49,597 shares issued at December 31, 2000 and 2001, respectively .... 471 496 Treasury stock, 100 shares of common stock at December 31, 2001 .... -- (3,059) Additional paid-in capital .... 234,738 277,300 Retained earnings .... 158,913 235,514 -------- -------- Total stockholders' equity .... 394,122 510,251 -------- -------- Total liabilities and stockholders' equity .... $582,672 $652,257 ======== ======== See accompanying notes to consolidated financial statements. F-3 RENAL CARE GROUP, INC. CONSOLIDATED INCOME STATEMENTS YEAR ENDED DECEMBER 31 -------------------------------------- 1999 2000 2001 -------- -------- -------- (IN THOUSANDS, EXCEPT PER SHARE DATA) Net revenue .... $541,895 $622,575 $755,082 Operating costs and expenses: Patient care costs .... 351,367 402,009 489,271 General and administrative expenses .... 51,315 57,104 64,530 Provision for doubtful accounts .... 14,632 16,949 20,290 Depreciation and amortization .... 27,835 32,321 38,945 Restructuring charge .... -- 9,235 -- Merger expenses .... 4,300 3,766 -- -------- -------- -------- Total operating costs and expenses .... 449,449 521,384 613,036 -------- -------- -------- Income from operations .... 92,446 101,191 142,046 Interest expense, net .... 6,224 5,015 2,636 -------- -------- -------- Income before income taxes and minority interest .... 86,222 96,176 139,410 Minority interest .... 7,768 10,011 15,478 -------- -------- -------- Income before income taxes .... 78,454 86,165 123,932 Provision for income taxes .... 31,367 34,706 47,331 -------- -------- -------- Net income .... $ 47,087 $ 51,459 $ 76,601 ======== ======== ======== Net income per share: Basic .... $ 1.05 $ 1.12 $ 1.59 ======== ======== ======== Diluted .... $ 1.00 $ 1.07 $ 1.52 ======== ======== ======== Weighted average shares outstanding: Basic .... 45,015 46,048 48,113 ======== ======== ======== Diluted .... 47,052 47,948 50,433 ======== ======== ======== See accompanying notes to consolidated financial statements. F-4 RENAL CARE GROUP, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (IN THOUSANDS) ADDITIONAL TOTAL COMMON STOCK TREASURY STOCK PAID-IN RETAINED STOCKHOLDERS' SHARES AMOUNT SHARES AMOUNT CAPITAL EARNINGS EQUITY ------ ------ ------ ------- --------- -------- ------------ Balance at December 31, 1998 44,491 $ 445 -- $ -- $186,948 $ 60,367 $ 247,760 Issuance of common stock in acquisitions 99 1 -- -- 2,999 -- 3,000 Net income -- -- -- -- -- 47,087 47,087 Common stock issued and related income tax benefit 730 7 -- -- 13,985 -- 13,992 ------ ----- ----- ------- -------- -------- --------- Balance at December 31, 1999 45,320 453 -- -- 203,932 107,454 311,839 Net income -- -- -- -- -- 51,459 51,459 Common stock issued and related income tax benefit 1,767 18 -- -- 30,806 -- 30,824 ------ ----- ----- ------- -------- -------- --------- Balance at December 31, 2000 47,087 471 -- -- 234,738 158,913 394,122 Net income -- -- -- -- -- 76,601 76,601 Common stock issued and related income tax benefit 2,510 25 -- -- 42,562 -- 42,587 Repurchase of common stock held in treasury -- -- 100 (3,059) -- -- (3,059) ------ ----- ----- ------- -------- -------- --------- Balance at December 31, 2001 49,597 $ 496 100 $(3,059) $277,300 $235,514 $ 510,251 ====== ===== ===== ======= ======== ======== ========= See accompanying notes to consolidated financial statements. F-5 RENAL CARE GROUP, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31 ------------------------------------ 1999 2000 2001 -------- -------- --------- (IN THOUSANDS) OPERATING ACTIVITIES Net income ....

$ 47,087 $ 51,459 $ 76,601 Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amortization .... 27,835 32,321 38,945 Loss on sale of property and equipment .... 362 567 1,266 Income applicable to minority interest .... 7,768 10,011 15,478 Distributions to minority shareholders .... (4,231) (7,333) (16,446) Deferred income taxes .... (6,793) 2,016 1,488 Loss from restructuring .... -- 9,235 -- Changes in operating assets and liabilities, net of effects from acquisitions: Accounts receivable .... (16,237) (20,863) (4,240) Inventories .... (3,480) 113 (2,832) Prepaid expenses and other current assets .... (3,698) (5,757) 604 Accounts payable .... 1,551 3,500 2,247 Accrued compensation .... 3,433 9,898 2,625 Due to third-party payors .... 5,209 4,773 649 Accrued expenses and other current liabilities .... 842 (2,749) 5,168 Income taxes .... 4,190 2,510 11,648 -------- -------- --------- Net cash provided by operating activities .... 63,838 89,701 133,201 INVESTING ACTIVITIES Proceeds from sale of property and equipment .... 336 4,390 1,078 Purchases of property and equipment .... (45,963) (45,741) (65,672) Cash paid for acquisitions, net of cash acquired .... (17,158) (28,063) (38,403) Increase (decrease) in other assets .... 1,968 (331) (4,415) -------- -------- --------- Net cash used in investing activities .... (60,817) (69,745) (107,412) FINANCING ACTIVITIES Net borrowings (payments) under line of credit .... 11,728 (20,229) (54,000) Payments on long-term debt .... (27,975) (13,207) (516) Proceeds from issuance of long-term debt .... 1,872 2,879 -- Net proceeds from issuance of common stock .... 6,372 24,399 29,307 Repurchase of treasury shares .... -- -- (3,059) -------- -------- --------- Net cash used in financing activities .... (8,003) (6,158) (28,268) (Decrease) increase in cash and cash equivalents .... (4,982) 13,798 (2,479) Cash and cash equivalents, at beginning of year .... 21,086 16,104 29,902 -------- -------- --------- Cash and cash equivalents, at end of year .... $ 16,104 $ 29,902 $ 27,423 ======== ======== ========= See accompanying notes to consolidated financial statements. F-6 RENAL CARE GROUP, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31 ---------------------------------- 1999 2000 2001 -------- -------- --------- (IN THOUSANDS) DISCLOSURES OF CASH FLOW INFORMATION: Cash paid during the year for: Interest .... $ 6,603 $ 5,237 $ 2,520 ======== ======== ========= Income taxes .... $ 30,497 $ 32,768 $ 48,963 ======== ======== ========= DISCLOSURES OF BUSINESS ACQUISITIONS: Fair value of assets acquired .... $ 20,428 $ 29,721 $ 39,108 Liabilities assumed .... 270 1,658 705 Common stock issued .... 3,000 -- -- -------- -------- --------- Cash paid for acquisitions, net of cash acquired .... $ 17,158 $ 28,063 $ 38,403 ======== ======== ========= See accompanying notes to consolidated financial statements. F-7 RENAL CARE GROUP, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001 1. ORGANIZATION Renal Care Group, Inc. (the "Company") provides dialysis services to patients with chronic kidney failure, also known as end-stage renal disease ("ESRD"). As of December 31, 2001, the Company provided dialysis and ancillary services to approximately 18,800 patients through 238 outpatient dialysis centers in 26 states. In addition to its outpatient dialysis center operations, as of December 31, 2001, the Company provided acute dialysis services through contractual relationships with 120 hospitals. 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES BASIS OF PRESENTATION The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its majority-owned subsidiaries and joint venture partnerships over which the Company exercises majority-voting control and for which control is other than temporary. All significant intercompany transactions and accounts have been eliminated in consolidation. USE OF ESTIMATES Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates. CASH EQUIVALENTS The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. The Company places its cash in financial institutions that are federally insured and limits the amount of credit exposure with any one financial institution. INVENTORIES Inventories consist of drugs, supplies and parts consumed in dialysis treatments and are stated at the lower of cost or market. Cost is determined using either the first-in, first-out method or the average cost method. PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are stated at cost. Depreciation is calculated on the straight-line method over the useful lives of the related assets, ranging from 3 to 40 years. Leasehold improvements are amortized using the straight-line method over the shorter of related lease terms or the useful lives. GOODWILL AND OTHER INTANGIBLES (IN THOUSANDS) Effective June 29, 2001, the Financial Accounting Standards Board approved the issuance of Statements of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141) and No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 141 eliminates the pooling-of-interests method of accounting for all business combinations except those initiated prior to July 1, 2001. Additionally, this statement changes the criteria to recognize intangible assets apart from goodwill. SFAS No. 142 supersedes Accounting Principals Board ("APB") Opinion No. 17, Intangible Assets, that previously required goodwill and intangible assets be amortized over a life not to exceed 40 years. Under SFAS No. F-8 142, goodwill and other intangible assets with indefinite lives will no longer be amortized but must be reviewed at least annually for impairment. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. SFAS No. 142 does not impose a limit on the useful lives of separable intangible assets. The provisions of SFAS No. 142 apply currently to goodwill and intangibles acquired after June 30, 2001 and upon adoption of the statement with respect to goodwill and intangibles acquired prior to July 1, 2001. The Company will adopt SFAS No. 142 on January 1, 2002. Management believes the impact of the application of the provisions of SFAS No. 142 relating to the amortization of goodwill will favorably affect the Company's earnings in 2002 by up to $0.05 per share. The Company has complied with the transitional requirements of such statement. Accordingly, during 2001, the Company did not recognize amortization expense for goodwill or intangible assets with indefinite lives acquired after June 30, 2001, but it continued to amortize all other acquired goodwill and intangibles in accordance with procedures described in the following paragraph. As of December 31, 2000 and 2001, goodwill net of accumulated amortization was $221,699 and $255,103, respectively, and accumulated amortization of goodwill was $26,299 and $31,365, respectively. Goodwill acquired prior to July 1, 2001, was determined based on the criteria defined in APB Opinion No. 16, Business Combinations, and equalled the excess of purchase price over the fair value of net assets acquired. Goodwill acquired after June 30, 2001 was recognized in accordance with criteria established in SFAS No. 141. During 2001, goodwill and non-competition agreements acquired prior to July 1, 2001, were amortized on a straight-line basis over a period of 40 years and the lives of the agreements, respectively. These amortization periods equate to a blended average of 35 years. Separable intangible assets, such as non-competition agreements, acquired after June 30, 2001 were amortized over the useful life of such assets. Goodwill and other intangible assets with indefinite lives that were acquired after June 30, 2001 were not amortized. DUE TO THIRD-PARTY PAYORS Due to third-party payors includes amounts received in excess of revenue recognized for specific billed charges. Such amounts are commonly referred to as overpayments. Overpayments received from Federally funded programs are reported to the Federal program in accordance with the program's established procedures. The amounts remain in due to third-party payors until either a refund is made or until the amount is recouped by the Federal payor. For overpayments received from non-federally funded payors, the Company uses various procedures to communicate and refund such amounts to the respective payor. Similar to the federally funded overpayments, such amounts remain in due to third-party payors until either a refund is made or until the amount is recouped by the payor. MINORITY INTEREST Minority interest represents the proportionate equity interest of other partners and stockholders in the Company's consolidated entities that are not wholly owned. As of December 31, 2001, the Company was the majority partner or member in 33 joint ventures. NET REVENUE Net revenue is recognized as services are provided at the estimated net realizable amount from Medicare, Medicaid, commercial insurers and other third-party payors. The Company's net revenue is largely derived from the following sources: - Outpatient hemodialysis; - Ancillary services associated with outpatient dialysis, primarily the administration of 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 medical university dialysis programs. The Medicare and Medicaid programs, along with certain third-party payors, reimburse the Company at amounts that are different from the Company's established rates. Contractual adjustments represent the difference between the amounts billed for these services and the amounts that are reimbursable by third-party payors. A summary of the basis for reimbursement with these payors follows: F-9 Medicare The Company is reimbursed by the Medicare program predominantly on a prospective payment system for dialysis services. Under the prospective payment system, each facility receives a composite rate per treatment. The composite rate differs among facilities to account for geographic differences in the cost of labor. Drugs and other ancillary services are reimbursed on a fee for service basis. Medicaid Medicaid is a state-administered program with reimbursements varying by state. The Medicaid programs are separately administered in each state in which the Company operates, and they reimburse the Company predominantly on a prospective payment system for dialysis services rendered. Other Other payments from commercial insurers, other third-party payors and patients are received pursuant to a variety of reimbursement arrangements. Generally payments from commercial insurers and other third-party payors are greater than those received from the Medicare and Medicaid programs. Reimbursements from Medicare and Medicaid at established rates approximated 61%, 58% and 55% of net revenue for the years ended December 31, 1999, 2000 and 2001, respectively. PROVISION FOR DOUBTFUL ACCOUNTS The provision for doubtful accounts is determined as a function of payor mix, billing practices, and other factors. The Company 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 and monitors 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 continually reviewing detailed accounts receivable agings. INCOME TAXES Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. SELF INSURANCE LIABILITY CLAIMS The Company is subject to medical malpractice and workers compensation claims or lawsuits in the ordinary course of business. Accordingly, the Company maintains insurance for individual malpractice claims exceeding certain individual and aggregate amounts. Similarly, the Company maintains workers compensation insurance for claims exceeding certain individual and aggregate amounts. The Company estimates its self-insured retention portion of the malpractice and workers compensation risks using historical claims data, demographic factors and other assumptions. The estimated accrual for malpractice and workers compensation claims could be significantly affected should current and future occurrences differ from trends identified with historical claims. F-10 FAIR VALUE OF FINANCIAL INSTRUMENTS Cash and Cash Equivalents The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair value. Accounts Receivable, Accounts Payable and Accrued Liabilities The carrying amounts reported in the consolidated balance sheets for accounts receivable, accounts payable and accrued liabilities approximate fair value. Accounts receivable are generally unsecured. Long-Term Debt Based upon the borrowing rates currently available to the Company, the carrying amounts reported in the consolidated balance sheets for long-term debt approximate fair value. CONCENTRATION OF CREDIT RISKS The Company's primary concentration of credit risk exists within accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. Receivables from Medicare and Medicaid represented 57% and 45% of gross accounts receivable at December 31, 2000 and 2001, respectively. Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity of the number of patients and payors and the geographic dispersion of the Company's operations. The administration of erythropoietin ("EPO")is beneficial in the treatment of anemia, a medical complication frequently experienced by dialysis patients. Revenue from the administration of EPO was 26% of the net revenue of the Company for the years ended December 31, 1999 and 2000 and 25% of the net revenue of the Company for the year ended December 31, 2001. EPO is produced by a single manufacturer. IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets as determined by independent appraisals or estimates of discounted future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2001, in the opinion of management, there has been no impairment of long-fixed assets. RECLASSIFICATIONS Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the net results of operations as previously reported. 3. BUSINESS ACQUISITIONS (IN THOUSANDS, EXCEPT PER SHARE DATA) 2001 ACQUISITIONS During 2001, the Company completed five acquisitions, which were accounted for under the purchase method of accounting. The combined purchase price of these acquisitions amounted to $38,403 and consisted exclusively of cash. Each of the transactions involved the acquisition of entities that provide care to ESRD patients through owned hemodialysis facilities. F-11 The acquired businesses either strengthened the Company's existing market share within a specific geographic area or provided the Company with an entrance into a new market. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for all five of the acquisitions completed in 2001: Inventory $ 579 Property, plant and equipment, net 5,629 Intangible assets 1,675 Goodwill 30,325 Other assets 900 ------- Total assets acquired 39,108 Total liabilities assumed 705 ------- Net assets acquired $38,403 ======= The Company began recording the results of operations for each of these acquired companies at the effective date of each transaction. Three of the five transactions were completed prior to July 1, 2001, and resulted in goodwill of $6,428. Such amounts were amortized during 2001 using a 35-year period. The remaining two transactions were completed subsequent to June 30, 2001. Goodwill resulting from these transactions amounted to $24,077 and was not amortized during 2001 in accordance with the requirements of SFAS No. 142. All goodwill is expected to be deductible for tax purposes. Intangible assets typically represent the value assigned to certain contracts such as non-competition agreements. Such amounts are amortized over the life of the contracts, which generally range from five to ten years. 2000 ACQUISITIONS During 2000, the Company completed three acquisitions accounted for under the purchase method of accounting. The aggregate purchase price of these transactions amounted to $28,063, and consisted exclusively of cash consideration. All such transactions involved the acquisition of entities that provided care to ESRD patients through owned hemodialysis facilities or acute in-patient dialysis services. The Company's three acquisitions that were accounted for under the purchase method of accounting in 2000 resulted in goodwill and other intangibles of approximately $27,832. Goodwill and other intangibles are being amortized on a straight-line basis over an average of 35 years. The Company began recording the results of operations from these acquired companies beginning with the effective date of each transaction. 1999 ACQUISITIONS During 1999, the Company completed four acquisitions accounted for under the purchase method of accounting. All such transactions involved the acquisition of entities that provided care to ESRD patients through owned hemodialysis facilities or acute in-patient dialysis services. F-12 The Company's four acquisitions that were accounted for under the purchase method in 1999 resulted in goodwill and other intangibles of approximately $18,841. Goodwill and other intangibles are being amortized on a straight-line basis over an average of 35 years. The Company began recording the results of operations from these acquired companies beginning with the effective date of each transaction. Number of shares issued .... 99 ======= Estimated value of shares issued .... $ 3,000 Cash consideration .... 17,158 ------- Aggregate purchase price .... $20,158 ======= PRO FORMA DATA (UNAUDITED) The following summary, prepared on a pro forma basis, combines the results of operations of the Company and the acquired entities, as if each of the acquisitions had been consummated as of the beginning of the year preceding the year of acquisition, giving effect to adjustments such as amortization of intangibles, interest expense and related income taxes. 1999 2000 2001 --------- --------- --------- Pro forma net revenue .... $ 574,294 $ 695,952 $ 781,349 ========= ========= ========= Pro forma net income .... $ 48,267 $ 55,558 $ 78,059 ========= ========= ========= Pro forma net income per share Basic .... $ 1.07 $ 1.21 $ 1.62 ========= ========= ========= Diluted .... $ 1.02 $ 1.16 $ 1.55 ========= ========= ========= The unaudited pro forma results of operations are not necessarily indicative of what actually would have occurred if the acquisitions had been completed prior to the beginning of the periods presented. 4. RESTRUCTURING CHARGE (IN THOUSANDS) During the third quarter of 2000, the Company recorded a one-time restructuring charge of $9,235 as a result of its plans to exit the wound care business. This charge consisted of early contract termination costs of $1,377, goodwill and property and equipment impairment charges of $5,973, severance costs of $1,200 and other administrative charges of $685. Management made the decision to exit this business as part of a long-term strategy to focus on its core dialysis business. Effective May 31, 2001, the Company sold certain assets and transferred certain liabilities associated with the wound care business in a transaction with a third party. Proceeds from this transaction equaled the net book value of the assets sold less the liabilities transferred; accordingly, no gain or loss was recognized. There are no remaining accrued expenses as of December 31, 2001 that relate to this restructuring charge. F-13 5. PROPERTY, PLANT AND EQUIPMENT (IN THOUSANDS) Property, plant and equipment consist of the following: DECEMBER 31, -------------------------- 2000 2001 --------- --------- Medical equipment .... $ 83,069 $ 102,387 Computer software and equipment .... 38,998 48,249 Furniture and fixtures .... 19,195 23,380 Leasehold improvements .... 49,407 67,072 Buildings .... 16,118 19,990 Construction-in-progress .... 6,101 12,134 --------- --------- 212,888 273,212 Less accumulated depreciation .... (73,315) (97,287) --------- --------- $ 139,573 $ 175,925 ========= ========= Depreciation expense was $19,459, $24,673 and $30,836 for the years ended December 31, 1999, 2000 and 2001, respectively. 6. LONG-TERM DEBT (IN THOUSANDS) Long-term debt consists of the following: DECEMBER 31, --------------------- 2000 2001 ------- ------- Line of credit, bearing interest at LIBO rate (7.48% at December 31, 2000) .... $54,000 $ -- Equipment note payable .... 1,874 1,482 Other .... 2,918 3,020 ------- ------- 58,792 4,502 Less current portion .... 476 726 ------- ------- $58,316 $ 3,776 ======= ======= LINE OF CREDIT The Company has executed a Second Amendment to its First Amended and Restated Loan Agreement with a group of banks. The Second Amendment provided for an increase in the credit facility from $125,000 to $185,000 through August 2000 at which point the lender commitments were reduced to $157,300. Lender commitments were further reduced to $129,500 in August 2001. Borrowings under the credit facility may be used for acquisitions, capital expenditures, working capital and general corporate purposes. No more than $25,000 of the credit facility may be used for working capital purposes. Within the working capital sublimit, Renal Care Group may borrow up to $5,000 in swing line loans. Each of the Company's wholly-owned subsidiaries has guaranteed repayment of this loan. The Company has negotiated loan pricing based on a LIBO rate margin pursuant to leverage tiers. These leverage tiers extend from 0.75 to 2.25 times and are priced at a LIBO rate margin of 0.60% to 1.35%. Commitment fees are also priced pursuant to leverage ratio tiers. Commitment fees range from 0.20% to 0.30% pursuant to leverage ratios ranging between 0.75 and 2.25. Under the loan agreement, commitments range in amounts and dates through August 2003. Lender commitments will remain at $129,500 through August 2002, and will then be reduced to $101,800 through August 2003. All loans under the loan agreement are due and payable on August 4, 2003. As of December 31, 2001, there was no amount outstanding under this agreement. The Company had $129,500 available under this agreement at December 31, 2001. F-14 The Company's obligations under the loan agreement, and the obligations of each of the subsidiaries under its guaranty, are secured by a pledge of the equity interests held by the Company in each of its subsidiaries. Financial covenants are customary for the amount and duration of this commitment. The Company was in compliance with all such covenants at December 31, 2001. EQUIPMENT NOTE PAYABLE The equipment note payable is to a vendor for certain equipment and software purchased by the Company. The note is payable in monthly installments through 2005. OTHER The other long-term debt consists of notes maturing at various times through April 2015. The aggregate maturities of long-term debt at December 31, 2001 are as follows: 2002............... $ 726 2003.............. 655 2004.............. 359 2005.............. 363 2006.............. 93 Thereafter......... 2,306 ------ $4,502 ====== 7. INCOME TAXES (IN THOUSANDS) The provision for income taxes consists of the following: YEAR ENDED DECEMBER 31, -------------------------------- 1999 2000 2001 -------- -------- -------- Current: Federal .... $ 35,265 $ 30,012 $ 42,002 State and local .... 2,895 2,678 3,841 -------- -------- -------- 38,160 32,690 45,843 -------- -------- -------- Deferred: Federal .... (6,477) 1,781 1,364 State and local .... (316) 235 124 -------- -------- -------- (6,793) 2,016 1,488 -------- -------- -------- Provision for income taxes .... $ 31,367 $ 34,706 $ 47,331 ======== ======== ======== F-15 At December 31, 2001, the Company has net operating loss carryforwards of approximately $91,731 for state income tax purposes that expire in years 2001 through 2021. The utilization of the state net operating loss carryforwards may be limited in future years due to the profitability of certain subsidiary corporations. Therefore, the Company has recorded a valuation allowance of $3,339 against the deferred tax asset attributable to the state net operating loss carryforwards. This represents an increase in the valuation allowance of $445. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's deferred tax liabilities and assets are as follows: DECEMBER 31, ------------------------ 2000 2001 -------- -------- Deferred tax assets: Net operating loss carryforwards .... $ 2,894 $ 3,414 Allowance for doubtful accounts .... 14,695 13,745 Accrued vacation and other accrued liabilities ..... 8,288 6,753 Other

.... 248 -- Less: Valuation allowance .... (2,894) (3,339) -------- -------- 23,231 20,573 -------- -------- Deferred tax liabilities: Depreciation .... 6,626 6,128 Cash to accrual adjustments (Section 481) .... 216 -- Amortization .... 8,662 8,308 Investments in partnerships .... 2,073 1,705 Other .... -- 266 -------- -------- 17,577 16,407 -------- -------- Net deferred tax asset .... $ 5,654 $ 4,166 ======== ======== The following is a reconciliation of the statutory federal and state income tax rates to the effective rates as a percentage of income before provision for income taxes as reported in the consolidated financial statements: YEAR ENDED DECEMBER 31, -------------------------- 1999 2000 2001 ------ ------ ------ U.S. federal income tax rate .... 35.0% 35.0% 35.0% State income tax, net of federal income tax benefit .... 2.5 3.0 2.5 Increase in valuation allowances .... 0.3 1.0 0.1 Other .... 2.2 1.3 0.6 ----- ----- ----- Effective income tax rate .... 40.0% 40.3% 38.2% ===== ===== ===== F-16 8. STOCKHOLDERS' EQUITY (IN THOUSANDS, EXCEPT PER SHARE DATA) STOCK OPTION PLANS As of December 31, 2001, the Company had six stock option plans. The Company also issues options, referred to in these financial statements as Free Standing Options outside of these plans. Options issued as Free Standing are for employees, officers, directors, and other key persons. Free Standing Options vest over various periods up to five years and have a term of ten years from the date of issuance. Options issued under the 1999 and 1996 Employee Plans have similar terms and purposes. Specifically, options under each of these plans are available for grant to eligible employees and other key persons, the options vest over four to five years and have a term of ten years from the date of issuance. These plans were adopted in 1999 and 1996, and have 3,500 and 6,000 shares of common stock reserved for issuance, respectively. Options issued under the Equity Compensation Plan ("Equity Plan") are for eligible employees and other key persons. The options vest over periods up to three years and have a term of ten years from the date of issuance. This plan was adopted by Dialysis Centers of America, Inc. ("DCA") in 1995 and there are 350 shares of common stock reserved for issuance. We merged with DCA in a pooling-of-interests transaction in February 1999. Options issued under the 1994 Stock Option Plan ("1994 Plan") are for directors, officers and other key persons. These options vest over four years and the options have a term of ten years from the date of issuance. This plan was adopted in 1994 and there are 720 shares of common stock reserved for issuance. Options issued under the Directors Plan are for non-management directors. These options vest immediately and have a term of ten years from the date of issuance. The plan was adopted in 1996 and there are 225 shares of common stock reserved for issuance. Options issued under the RDM Plan are for directors, officers, and other key persons. These options vest immediately upon grant and have a term of 5 to 10 years from the date of issuance. The plan was adopted by Renal Disease Management by Physicians, Inc ("RDM") in 1997, and there are 109 shares of common stock reserved for issuance. We merged with RDM in a pooling-of-interests transaction in April 2000. The Company has adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, but applies APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its plans. Therefore, compensation expense would generally be recorded only if on the date of grant the then current market price of the underlying stock exceeded the exercise price. F-17 The following is a summary of option transactions during the period from January 1, 1999 through December 31, 2001: WEIGHTED AVERAGE 1999 1996 EXERCISE FREE EMPLOYEE EMPLOYEE EQUITY 1994 DIRECTORS RDM EXERCISE PRICE PRICE STANDING PLAN PLAN PLAN PLAN PLAN PLAN RANGE Balance at December 31, 1998 ...... 1,450 -- 5,013 64 23 11 58 0.11 - 29.50 $ 14.30 Granted .... 536 939 235 -- -- 23 7 16.63 - 28.50 18.12 Exercised .... (82) -- (305) (36) -- -- -- 0.11- 22.00 11.99 Forfeited .... -- -- (142) (10) -- -- -- 3.33 - 24.67 17.85 ------- ------- ------- ----- ---- ---- ---- Balance at December 31, 1999 ...... 1,904 939 4,801 18 23 34 65 3.33 - 29.50 15.17 Granted .... -- 1,538 350 -- -- 22 -- 15.94 - 29.03 16.08 Exercised .... (419) (82) (1,092) -- (6) -- (39) 3.33 - 23.25 13.66 Forfeited .... (19) (20) (202) -- -- -- -- 8.00 - 29.03 19.11 ------- ------- ------- ----- ---- ---- ---- Balance at December 31, 2000 ...... 1,466 2,375 3,857 18 17 56 26 3.33 - 29.50 15.65 Granted .... 120 899 -- -- -- 17 -- 28.02 - 29.63 28.05 Exercised .... (686) (198) (1,113) (1) (9) (6) (6) 3.33 - 25.58 13.39 Forfeited .... (9) (46) (54) -- -- -- -- 8.00 - 28.02 18.07 ------- ------- ------- ----- ---- ---- ---- Balance at December 31, 2001 ...... 891 3,030 2,690 17 8 67 20 3.33 - 29.63 18.27 ======= ======= ======= ===== ==== ==== ==== Available for grant at December 31, 2001....... -- 169 74 -- -- 146 -- ======= ======= ======= ===== ==== ==== ==== Exercisable at December 31, 2001....... 571 800 1,935 17 8 67 17 $ 15.99 ======= ======= ======= ===== ==== ==== ==== ======= Exercisable at December 31, 2000....... 1,065 417 2,149 18 16 56 20 ======= ======= ======= ===== ==== ==== ==== Exercisable at December 31, 1999....... 1,295 188 2,165 12 23 34 35 =======

======= ======= ===== ==== ==== ==== The weighted-average fair value of options granted during 1999, 2000 and 2001 is $7.88, $7.71 and $12.40, respectively. F-18 The following table summarizes information about stock options outstanding at December 31, 2001. NUMBER WEIGHTED NUMBER OUTSTANDING AS AVERAGE WEIGHTED EXERCISABLE AS WEIGHTED OF REMAINING AVERAGE OF AVERAGE RANGE OF DECEMBER 31, CONTRACTUAL EXERCISE DECEMBER 31, EXERCISE EXERCISE PRICES 2001 LIFE PRICE 2001 PRICE -- $ 3.33 - $14.50 1,258 4.54 $ 9.68 1,195 $ 9.50 $15.17 - $15.94 1,762 8.32 $15.89 601 $ 15.78 $16.09 - $22.00 2,477 7.00 $19.69 1,434 $ 20.13 $22.75 - $29.63 1,226 9.14 $27.63 185 $ 26.32 -- $ 3.33 - $29.63 6,723 7.27 $18.27 3,415 $ 15.99 ==

Pro forma information regarding net income and net income per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: YEAR ENDED DECEMBER 31, -------------------------------- 1999 2000 2001 -------- -------- -------- Expected volatility .... 40.0% 45.0% 45.0% Expected dividend yield .... None None None Risk-free interest rate .... 5.00% 6.25% 3.75% Expected life of options .... 5 years 5 years 5 years The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. F-19 For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the option's vesting period. The Company's pro forma information follows: YEAR ENDED DECEMBER 31, -------------------------------- 1999 2000 2001 -------- -------- -------- Net income .... $ 47,087 $ 51,459 $ 76,601 Pro forma compensation expense from stock options, net of taxes .... 5,979 6,304 3,870 -------- -------- -------- Pro forma net income .... $ 41,108 $ 45,155 $ 72,731 ======== ======== ======== Pro forma net income per share Basic .... $ 0.91 $ 0.98 $ 1.51 ======== ======== ======== Diluted .... $ 0.87 $ 0.94 $ 1.44 ======== ======== ======== The effect of applying SFAS No. 123 for providing pro forma disclosure is not likely to be representative of the effect on reported net income for future years. WARRANTS At December 31, 2001, the Company has outstanding warrants to purchase an aggregate of 108 shares of common stock that were issued in 1994 and 1995. These warrants have a term of ten years from the date of issuance and an exercise price of $3.33 per share. 9. OPERATING LEASES (IN THOUSANDS) The Company rents office and medical facilities under lease agreements that are classified as operating leases for financial statement purposes. At December 31, 2001, future minimum rental payments under noncancelable operating leases with terms of one year or more consist of the following: 2002.................. $ 19,614 2003.................. 17,643 2004.................. 16,032 2005.................. 13,863 2006.................. 11,124 Thereafter............. 39,777 -------- $118,053 ======== Rent expense was $17,189, $19,164 and $22,624 for the years ending December 31, 1999, 2000 and 2001, respectively. 10. EMPLOYEE BENEFIT PLANS (IN THOUSANDS) DEFINED CONTRIBUTION PLANS The Company has qualified defined contribution plans covering substantially all employees that permit participants to make voluntary contributions. The Company pays all general and administrative expenses of the plans and makes matching contributions on behalf of the employees. The Company made contributions relating to these plans totaling $1,532, $1,734 and $1,960 for the years ended December 31, 1999, 2000 and 2001, respectively. F-20 EMPLOYEE STOCK PURCHASE PLAN Effective April 1996, the Company adopted an Employee Stock Purchase Plan ("Stock Purchase Plan") to provide substantially all employees an opportunity to purchase shares of its common stock in amounts not to exceed 10% of eligible compensation or $25 of common stock each calendar year. Annually, the participant's December 31 account balance is used to purchase shares of stock at the lesser of 85% of the fair market value of shares at the beginning of the year or December 31 . A total of 348 shares are available for purchase under the plan. At December 31, 2000 and 2001, $1,331 and $1,571, respectively, were included in accrued wages and benefits relating to the Stock Purchase Plan. 11.

EARNINGS PER SHARE (IN THOUSANDS, EXCEPT PER SHARE DATA) In accordance with SFAS No. 128, Earnings Per Share, basic net income per share is based on the weighted average number of common shares outstanding during the periods. Diluted net income per share is based on the weighted average number of common shares outstanding during the periods plus the effect of dilutive stock options and warrants using the treasury stock method. The following table sets forth the computation of basic and diluted net income per share. 1999 2000 2001 ---------- ---------- ---------- Numerator: Numerator for basic and diluted net income per share.................... $ 47,087 $ 51,459 $ 76,601 Denominator: Denominator for basic net income per share weighted-average shares....... 45,015 46,048 48,113 Effect of dilutive securities: Stock options.. 1,529 1,498 2,087 Warrants.. 508 402 233 ---------- ---------- ---------- Denominator for diluted net income per share-adjusted weighted-average shares and assumed conversions.... 47,052 47,948 50,433 =========== ========== =========== Basic net income per share.. $ 1.05 $ 1.12 $ 1.59 =========== ========== =========== Diluted net income per share.. $ 1.00 $ 1.07 $ 1.52 =========== ========== =========== F-21 12. COMMITMENTS AND CONTINGENCIES (IN THOUSANDS) 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, the Company was sued in Mahoning County, Ohio by one of the affected patients for injuries related to the August 30, 2000 illnesses. Additional suits have been filed, and as of December 31, 2001, a total of 11 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. Additional suits arising out of these illnesses may be filed in the future. 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 operation. On December 12, 2000, the Company reached an agreement in principle with the U.S. Attorney for the Southern District of Mississippi to settle claims arising out of alleged inadequacies in physician documentation related to lab tests performed by its laboratory subsidiary, RenaLab, Inc. The terms of such settlement provided that the Company would pay $1,980 to the Medicare program. This amount was recorded during the fourth quarter of 2000 and was paid in January 2002, when the Company and the government finalized the terms of a corporate integrity agreement. 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 and, except as referenced above, is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. 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, these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. 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. As of December 31, 2001, estimated commitments for medical director fees for the year 2002 were $15.5 million and were $75.8 million over the lives of the agreements. F-22 13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) The following tables include, for 2000 and 2001, certain selected quarterly financial data. In the opinion of the Company's management this unaudited information has been prepared on the same basis as the audited information and includes all adjustments necessary to present fairly the information included therein. The operating results for any quarter are not necessarily indicative of results for any future period. 2000 --- FIRST SECOND THIRD FOURTH QUARTER QUARTER QUARTER QUARTER ---------- ---------- ---------- ---------- Net revenue.. $ 149,657 $ 154,152 $ 156,505 $ 162,261 Operating expenses... 114,281 117,521 119,311 124,949 Depreciation and amortization.................................. 7,772 7,808 8,154 8,587 Restructuring charge... -- -- 9,235 -- Merger expenses.. -- 3,766 -- -- ---------- ---------- ---------- ----------- Income from operations... 27,604 25,057 19,805 28,725 Interest expense, net.. 1,496 1,366 1,126 1,027 Minority interest.. 2,169 2,258 2,428 3,156 ---------- ---------- ---------- ----------- Income before income taxes..................................... 23,939 21,433 16,251 24,542 Income taxes... 9,091 9,484 6,449 9,682 ---------- ---------- ---------- ----------- Net income... $ 14,848 $ 11,949 $ 9,802 $ 14,860 ========== ========== ========== =========== Net income per share: Basic.. $ 0.33 $ 0.26 $ 0.21 $ 0.32 ========== ========== ========== =========== Diluted.. $ 0.31 $ 0.25 $ 0.20 $ 0.31 ========== ========== ========== =========== 2001 -- FIRST SECOND THIRD FOURTH QUARTER QUARTER QUARTER QUARTER ---------- ---------- ---------- ----------- Net revenue.. $ 174,778 $ 183,455 $ 193,149 $ 203,700 Operating expenses... 133,131 139,451 146,665 154,842 Depreciation and amortization.................................. 8,852 9,296 9,997 10,800 ---------- ---------- ---------- ----------- Income from operations... 32,795 34,708 36,487 38,058 Interest expense, net.. 999 1,274 198 166 Minority interest.. 3,130 3,722 4,104 4,522 ---------- ---------- ---------- ----------- Income before income taxes..................................... 28,666 29,712 32,185 33,370 Income taxes... 10,952 11,351 12,288 12,740 ---------- ---------- ---------- ----------- Net income... $ 17,714 $ 18,361 $ 19,897 $ 20,630 ========== ========== ========== =========== Net income per share: Basic.. $ 0.37 $ 0.39 $ 0.41 $ 0.42 ========== ========== ========== =========== Diluted.. $ 0.36 $ 0.37 $ 0.39 $ 0.40 ========== ========== ========== =========== F-23 SCHEDULE II RENAL CARE GROUP, INC. CONSOLIDATED SCHEDULE - VALUATION AND QUALIFYING ACCOUNTS (IN THOUSANDS) BALANCE AMOUNT BALANCE BEGINNING ALLOWANCES CHARGED TO AT END OF OF PERIOD ACQUIRED EXPENSE WRITE-OFFS PERIOD ---------- ---------- ----------- ------------ ---------- Allowances for doubtful accounts: Year ended December 31, 1999.................... $ 31,226 $ 283 $ 14,632 $ (5,265) $ 40,876 ========== ========= ========== ============ ========== Year ended December 31, 2000.................... $ 40,876 $ -- $ 16,949 $ (10,433) $ 47,392 ========== ========= ========== ============ ========== Year ended December 31, 2001.................... $ 47,392 $ -- $ 20,290 $ (22,422) $ 45,260 ========== ========= ========== ============ ========== F-24 SIGNATURES Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Nashville, State of Tennessee, on the 29th day of March, 2002. RENAL CARE GROUP, INC. By: SAM A. BROOKS, JR. ------------------------------------ Sam A. Brooks, Jr. Chairman of the Board, President and Chief Executive Officer KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Sam A. Brooks, Jr. and R. Dirk Allison and either of them (with full power in each to act alone) as true and lawful attorneys-in-fact with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated. /s/ SAM A. BROOKS, JR. Chairman of the Board, March 29, 2002 --- President, Chief Executive Sam A. Brooks, Jr. Officer and Director (Principal Executive Officer) /s/ R. DIRK ALLISON Executive Vice President, March 29, 2002 --- Chief Financial Officer R. Dirk Allison Treasurer (Principal Financial and Accounting Officer) /s/ JOSEPH C. HUTTS Director March 29, 2002 --- Joseph C. Hutts /s/ HARRY R. JACOBSON, M.D. Director March 29, 2002 --- Harry R. Jacobson, M.D. /s/ THOMAS A. LOWERY, M.D. Director March 29, 2002 --- Thomas A. Lowery, M.D. /s/ JOHN D. BOWER, M.D. Director March 29, 2002 -- John D. Bower, M.D. /s/ STEPHEN D. MCMURRAY, M.D. Director March 29, 2002 -- Stephen D. McMurray, M.D. /s/ W. TOM MEREDITH, M.D. Director March 29, 2002 -- W. Tom Meredith, M.D. /s/ KENNETH E. JOHNSON, JR., M.D. Director March 29, 2002 -- Kenneth E. Johnson, Jr., M.D. /s/ WILLIAM V. LAPHAM Director March 29, 2002 -- William V. Lapham EXHIBIT INDEX EXHIBIT NUMBER DESCRIPTION OF EXHIBITS ------- ---------------------- 3.1 Amended and Restated Certificate of Incorporation of the Company (1) 3.1.2 Certificate of Amendment of Certificate of Incorporation of the Company (2) 3.1.3 Certificate of Designation, Preferences, and Rights of Series A Junior Participating Preferred Stock of the Company (2) 3.1.4 Certificate of Amendment of Amended and Restated Certificate of Incorporation of the Company (12) 3.2 Amended and Restated Bylaws of the Company (1) 4.1 See Exhibits 3.1 and 3.2 for provisions of the Amended and Restated Certificate of Incorporation and Bylaws of the Company defining rights of holders of Common Stock of the Company (1) 4.2 Specimen stock certificate for the Common Stock of the Company (1) 4.3 Shareholder Rights Protection Agreement, dated May 2, 1997 between the Company and First Union National Bank of North Carolina, as Rights Agent (3) 10.1 Employment Agreement, dated July 13, 2000, between the Company and Sam A. Brooks (16)* 10.2 Employment Agreement, dated October 15, 1999, between the Company and R. Dirk Allison(14)* 10.3 Employment Agreement, dated July 13, 2000, between the Company and Raymond Hakim, M.D. (16)* 10.4 Medical Director Services Agreement, dated February 12, 1996, between the Company and Kansas Nephrology Physicians, P.A. (5) 10.5 Medical Director Services Agreement, dated February 12, 1996, between the Company and Indiana Dialysis Management, P.C. (5) 10.6 Medical Director Services Agreement, dated February 12, 1996, between the Company and Tyler Dialysis & Transplant Associates, P.A. (5) 10.7 Lease Agreement, dated February 5, 1996, between the Company and MEL, Inc. relating to approximately 20,000 square feet of space (5) 10.8 Lease Agreement, dated February 12, 1996, among the Company and Thomas A. Lowery, M.D., James R. Cotton, M.D., Roy D. Gerard, M.D. and Kevin A. Curran, M.D., relating to property in Carthage, Texas (5) 10.9 Lease Agreement, dated February 12, 1996, among the Company and Thomas A. Lowery, M.D., James R. Cotton, M.D., Roy D. Gerard, M.D., and Kevin A. Curran, M.D., relating to property in Tyler, Texas (5) 10.10 Sublease Agreement between M-W-R Investment and Kansas Nephrology Associates, P.A. dated February 1, 1990, to be assumed by the Company, and related Lease Agreement between Dodge City Medical Center Building, Inc. and M-W-R Investment (1) 10.11 Sublease Agreement, dated February 12, 1996, with Tyler Nephrology Associates, Inc. (5) 10.12 Dialysis Center Management Agreement, dated May 11, 1994, between Renal Care Group, Inc. (of Tennessee) and Vanderbilt University (1) 10.13 1996 Stock Option Plan for Outside Directors (1)* 10.14 Fourth Amended and Restated 1996 Stock Incentive Plan (6)* 10.15 Amended and Restated Employee Stock Purchase Plan (2)* 10.16 Medical Director Services Agreement, dated September 30, 1996, between the Company and a group of individual physicians (7) 10.17 Employment Agreement, dated July 13, 2000, between the Company and Gary Brukardt (16)* 10.18 First Amended and Restated Loan Agreement, dated as of August 4, 1997, among the Company, its subsidiaries and NationsBank of Tennessee, N.A. (2) 10.18.1 Second Amendment to First Amended and Restated Loan Agreement, dated as of June 23, 1999, among the Company, First American National Bank, First Union National Bank, and NationsBank, N.A., SunTrust Bank, Nashville, N.A., AmSouth Bank, and NorWest Bank Arizona, N.A. (12) 10.18.2 Third Amendment to First Amended and Restated Loan Agreement dated September 29, 2000 (16) 10.19 Stock Option Agreement, dated April 30, 1997, between the Company and Sam A. Brooks (2)* 10.20 Stock Option Agreement, dated April 30, 1997, between the Company and Gary Brukardt (2)* 10.21 Asset Purchase Agreement with an effective date of February 1, 1997 among the Company, RCG Indiana, LLC, Eastern Indiana Kidney Center, Indiana Kidney Center, Indiana Kidney Center South, LLC, St. Vincent Dialysis Center, Saint Joseph Dialysis Center and Indiana Dialysis Services PC and Community Hospitals of Indiana, Inc., Seton Health Corporation of Central Indiana, Inc., Reid Hospital & Health Care Services, Inc., and Saint Joseph Hospital and Health Care Center of Kokomo, Indiana, Inc. and Indiana Dialysis Services, PC, Reid Hospital Physicians, Greenwood Dialysis Services, PC and certain individuals named on the signature pages thereto and Indiana Nephrology & Internal Medicine, P.C. (8) 10.22 Restricted Stock Award Agreement, dated December 23, 1997, between the Company and Harry R. Jacobson, M.D. (4)* 10.23 Restricted Stock Award Agreement, dated December 23, 1997, between the Company and Sam A. Brooks (4)* 10.24 Restricted Stock Award Agreement, dated December 23, 1997, between the Company and Gary Brukardt (4)* 10.25 Restricted Stock Award Agreement, dated December 23, 1997, between the Company and Raymond Hakim, M.D. (4)* 10.26 Restricted Stock Award Agreement, dated December 23, 1997, between the Company and Thomas Lowery, M.D. (4)*

10.27 Restricted Stock Award Agreement, dated December 23, 1997, between the Company and Stephen D. McMurray, M.D. (4)* 10.28 Stock Option Agreement, dated May 22, 1998, between the Company and Sam A. Brooks (9)* 10.29 Stock Option Agreement, dated May 22, 1998, between the Company and Gary A. Brukardt (9)* 10.30 Stock Option Agreement, dated May 22, 1998, between the Company and Raymond Hakim, M.D. (9)* 10.31 Stock Option Agreement, dated June 5, 1998, between the Company and Joseph C. Hutts (9)* 10.32 Stock Option Agreement, dated June 5, 1998, between the Company and Harry R. Jacobson, M.D. (9)* 10.33 Agreement No. 20010240, between Renal Care Group, Inc. and Amgen Inc. effective January 2, 2002 (The Company has requested confidential treatment of certain portions of this Exhibit.) 10.34 Restricted Stock Award Agreement, dated January 25, 1999, between the Company and Sam A. Brooks (10)* 10.35 Restricted Stock Award Agreement, dated January 25, 1999, between the Company and Harry R. Jacobson (10)* 10.36 Restricted Stock Award Agreement, dated January 25, 1999, between the Company and Stephen D. McMurray (10)* 10.37 Renal Care Group, Inc. 1999 Long-Term Incentive Plan (11)* 10.37.1 Amendment to the Renal Care Group, Inc. 1999 Long-Term Incentive Plan (15)* 10.38 Stock Option Agreement, dated August 30, 1999, between the Company and Sam A. Brooks (13)* 10.39 Stock Option Agreement, dated August 30, 1999, between the Company and Gary A. Brukardt (13)* 10.40 Stock Option Agreement, dated August 30, 1999, between the Company and Raymond Hakim, M.D. (13)* 10.41 Stock Option Agreement, dated June 2, 1999, between the Company and Joseph C. Hutts (13)* 10.42 Stock Option Agreement, dated June 2, 1999, between the Company and Harry R. Jacobson, M.D. (13)* 10.43 Stock Option Agreement, dated July 22, 1999, between the Company and William V. Lapham (13)* 10.44 Stock Option Agreement, dated October 27, 1999, between the Company and R. Dirk Allison(14)* 10.45 Stock Option Agreement, dated June 8, 2000, between the Company and Joseph C. Hutts (17)* 10.46 Stock Option Agreement, dated June 8, 2000, between the Company and Harry R. Jacobson, M.D.(17)* 10.47 Stock Option Agreement, dated June 8, 2000, between the Company and William V. Lapham(17)* 10.48 Stock Option Agreement, dated June 8, 2000, between the Company and W. Thomas Meredith(17)* 10.49 Stock Option Agreement, dated September 19, 2000, between the Company and Sam A. Brooks (17)* 10.50 Stock Option Agreement, dated September 19, 2000, between the Company and Gary A. Brukardt(17)* 10.51 Stock Option Agreement, dated September 19, 2000, between the Company and Raymond Hakim, M.D.(17)* 10.52 Stock Option Agreement, dated September 19, 2000, between the Company and R. Dirk Allison (17)* 10.53 Stock Option Agreement dated August 2, 2001 between the Company and Sam A. Brooks(18)* 10.54 Stock Option Agreement dated August 2, 2001 between the Company and R. Dirk Allison(18)* 10.55 Stock Option Agreement dated August 2, 2001 between the Company and Gary Brukardt(18)* 10.56 Stock Option Agreement dated August 2, 2001 between the Company and Raymond Hakim(18)* 10.57 Stock Option Agreement dated June 7, 2001 between the Company and Joseph C. Hutts* 10.58 Stock Option Agreement dated June 7, 2001 between the Company and William V. Lapham* 10.59 Stock Option Agreement dated June 7, 2001 between the Company and W. Thomas Meredith* 21.1 List of subsidiaries of the Company 23.1 Consent of Ernst & Young LLP 24.1 Power of Attorney (contained on the signature page of this report) (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (Reg. No. 333-80221) effective February 6, 1996. (2) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1997 (Commission File No. 0-27640). (3) Incorporated by reference to the Company's Current Report on Form 8-K filed May 5, 1997 (Commission File No. 0-27640). (4) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1997 (Commission File No. 0-27640). (5) Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 1996 (Commission File No. 0-27640). (6) Incorporated by reference to Appendix A to the Company's definitive Proxy Statement filed April 27, 1998 relating to the 1998 Annual Meeting of Stockholders (Commission File No. 0-27640). (7) Incorporated by reference to the Company's Registration Statement on Form S-1 (Reg. No. 333-13813) effective October 30, 1996. (8) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1996 (Commission File No. 0-27640). (9) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1998 (Commission File No. 0-27640). (10) Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 1999 (Commission File No. 0-27640). (11) Incorporated by reference to Appendix A to the Company's definitive Proxy Statement filed April 27, 1999 relating to the 1999 Annual Meeting of Stockholders (Commission File No. 0-27640). (12) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1999 (Commission File No. 0-27640). (13) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1999 (Commission File No. 0-27640). (14) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1999 (Commission File No. 0-27640). (15) Incorporated by reference to Appendix A to the Company's definitive Proxy Statement filed April 28, 2000 relating to the 2001 Annual Meeting of Stockholders (Commission File No. 0-27640). (16) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2000 (Commission File No. 0-27640). (17) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 2000 (Commission File No. 0-27640). (18) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2001 (Commission File No. 0-27640). * Management contract or executive compensation plan or arrangement.