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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended MARCH 31, 2000

Commission File Number: 1-4034

TOTAL RENAL CARE HOLDINGS, INC.

21250 Hawthorne Blvd., Suite 800  
Torrance, California 90503-5517  
Telephone # (310) 792-2600

Delaware  
(State of incorporation)

51-0354549  
(I.R.S. Employer  
Identification No.)

The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

As of May 1, 2000, there were 81,455,148 shares of common stock (par value \$0.001) issued and outstanding.

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TOTAL RENAL CARE HOLDINGS, INC.

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31, 1999.....

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### TOTAL RENAL CARE HOLDINGS, INC.

#### CONSOLIDATED BALANCE SHEETS (dollars in thousands except per share data)

	March 31, 2000	December 31, 1999
	-----	-----
ASSETS		
-----		
Cash and cash equivalents.....	\$ 150,377	\$ 107,981
Accounts receivable, less allowance of \$70,489 and \$67,315.....	366,100	390,329
Inventories.....	24,665	32,916
Other current assets.....	36,734	32,082
Income tax receivable.....	19,667	45,645
Deferred income taxes.....	46,958	45,795
	-----	-----
Total current assets.....	644,501	654,748
Property and equipment, net.....	284,693	285,449
Intangible assets, net.....	1,045,457	1,069,672
Investments in third-party dialysis businesses.....	37,350	35,552
Deferred taxes.....	5,234	6,553
Other long-term assets.....	2,751	4,744
	-----	-----
	\$2,019,986	\$2,056,718
	=====	=====

# LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable.....	\$ 99,445	\$ 121,561
Accrued compensation and benefits.....	47,386	47,647
Other liabilities.....	75,140	77,141
Current portion of long-term debt.....	23,904	26,585
Long-term debt potentially callable under covenant provisions.....	1,413,737	1,425,610
	-----	-----
Total current liabilities.....	1,659,612	1,698,544
Long-term debt, less \$1,413,737 and \$1,425,610 potentially callable classified as current.....	5,027	5,696
Other long-term liabilities.....	3,289	3,497
Minority interests.....	20,852	22,577
Shareholders' equity		
Preferred stock (\$0.001 par value; 5,000,000 shares authorized; none issued or outstanding).....		
Common stock (\$0.001 par value, 195,000,000 shares authorized; 81,398,088 and 81,193,011 shares issued and outstanding).....	81	81
Additional paid-in capital.....	426,944	426,025
Notes receivable from shareholders.....	(156)	(192)
Accumulated other comprehensive loss.....	(4,718)	(4,718)
Accumulated deficit.....	(90,945)	(94,792)
	-----	-----
Total shareholders' equity.....	331,206	326,404
	-----	-----
	\$2,019,986	\$2,056,718
	=====	=====

See notes to condensed consolidated financial statements.

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## TOTAL RENAL CARE HOLDINGS, INC.

### CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (dollars in thousands, except per share data)

	Three months ended March 31	
	2000	1999
	-----	-----
Net operating revenues.....	\$372,113	\$352,244
Operating expenses		
Dialysis and lab facilities.....	259,298	229,640
General and administrative.....	31,921	23,608
Depreciation and amortization.....	27,718	26,390
Provision for uncollectible accounts...	12,859	10,478
	-----	-----
Total operating expenses.....	331,796	290,116
	-----	-----
Operating income.....	40,317	62,128
Other income.....	1,395	1,330
Debt expense.....	33,165	23,303
Minority interests in income of consolidated subsidiaries.....	(998)	(2,318)
	-----	-----
Income before income taxes..	7,549	37,837

Income tax expense.....	3,702	14,630
	-----	-----
Net income.....	\$ 3,847	\$ 23,207
	=====	=====
Earnings per share.....	\$ .05	\$ 0.29
	=====	=====
Earnings per share--assuming dilution.....	\$ .05	\$ 0.28
	=====	=====
STATEMENTS OF COMPREHENSIVE INCOME		
Net income.....	\$ 3,847	\$ 23,207
Foreign currency translation.....		(336)
	-----	-----
Comprehensive income.....	\$ 3,847	\$ 22,871
	=====	=====

See notes to condensed consolidated financial statements.

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TOTAL RENAL CARE HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollars in thousands)

	Three months ended March 31	
	2000	1999
	-----	-----
Cash flows from operating activities		
Net income.....	\$ 3,847	\$ 23,207
Non-cash items included in net income:		
Depreciation and amortization.....	27,718	26,390
Deferred income taxes.....	156	4,720
Stock option expense and tax benefits.....	88	(436)
Equity investment losses.....	396	
Minority interests in income of consolidated subsidiaries.....	998	2,318
	-----	-----
	33,203	56,199
Gain on sale of facility assets.....	(2,107)	
Changes in operating assets and liabilities, net of acquisitions / divestitures:		
Accounts receivable.....	24,031	(24,988)
Inventories.....	7,517	(3,790)
Other current assets.....	(4,541)	(1,216)
Other long-term assets.....	1,993	(2,615)
Accounts payable.....	(22,116)	27,143
Accrued compensation and benefits.....	(261)	2,228
Other liabilities.....	(2,001)	(20,499)
Income taxes.....	25,978	8,929
Other long-term liabilities.....	(208)	1,008
	-----	-----
Net cash provided by operating activities.....	61,488	42,399
	-----	-----
Cash flows from investing activities		
Additions of property and equipment, net.....	(16,677)	(38,638)
Acquisitions and divestitures, net.....	15,643	(76,881)
Investments in affiliates, net.....	(2,194)	(21,948)
	-----	-----
Net cash used in investing activities.....	(3,228)	(137,467)
	-----	-----
Cash flows from financing activities		
Proceeds from bank credit facilities.....		122,700
Payments on bank credit facilities, net of foreign		

currency translation.....	(15,223)	(38,200)
Proceeds from other long-term borrowings.....		9,163
Net proceeds from issuance of common stock.....	867	1,992
Distributions to minority interests.....	(1,508)	(1,833)
	-----	-----
Net cash provided (used) by financing activities.....	(15,864)	93,822
Effect of exchange rate changes on cash.....		(336)
	-----	-----
Net increase (decrease) in cash.....	42,396	(1,582)
Cash and cash equivalents at beginning of period.....	107,981	41,487
	-----	-----
Cash and cash equivalents at end of period.....	\$150,377	\$ 39,905
	=====	=====

See notes to condensed consolidated financial statements.

TOTAL RENAL CARE HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(dollars in thousands)

Unless otherwise indicated in this Form 10-Q "we," "us," "our" and similar terms refer to Total Renal Care Holdings, Inc. and its subsidiaries.

1. Condensed consolidated interim financial statements

The consolidated interim financial statements included in this report have been prepared by the Company without audit. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. These adjustments are of a normal and recurring nature. The results of operations for the period ended March 31, 2000 are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 1999 Form 10-K. Certain reclassifications have been made to prior periods to conform with current reporting.

2. Earnings per share

The reconciliation of the numerators and denominators used to calculate earnings per share for all periods presented is as follows:

	Three months ended March 31,	
	2000	1999
	-----	-----
Net income.....	\$ 3,847	\$23,207
Interest, net of tax resulting from dilutive effect of convertible debt.....		1,088
	-----	-----
Income assuming dilution.....	\$ 3,847	\$24,295
	=====	=====
Applicable common shares:		
Weighted average outstanding during the period.....	81,352	81,123
Reduction in shares in connection with notes receivable from employees.....	(37)	(21)
	-----	-----
Weighted average number of shares outstanding for earnings per share.....	81,315	81,102
Incremental shares from stock option plans.....	429	477
Incremental shares from convertible debt.....		4,879
	-----	-----
Weighted average number of outstanding shares and incremental shares assumed to be outstanding for earnings per share--assuming dilution.....	81,744	86,458
	=====	=====

Earnings per share.....	\$ 0.05	\$ 0.29
	=====	=====
Earnings per share--assuming dilution.....	\$ 0.05	\$ 0.28
	=====	=====

Stock options with exercise prices greater than the average market price of shares outstanding during the period were not included in the computation of earnings per share assuming dilution. The stock options not included in the computation totaled 10,428,517 and 8,119,446 shares at exercise prices ranging from \$4.23 to \$36.13 per share and \$17.26 to \$36.13 per share for the three months ended March 31, 2000 and 1999, respectively. Additionally, assumed conversions of the 7% convertible subordinated notes and the 5 5/8% convertible subordinated notes were anti-dilutive and therefore not included in the computation of earnings per share assuming dilution for the three months ended March 31, 2000. The 7% convertible subordinated notes were also anti-dilutive for the three months ended March 31, 1999.

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# TOTAL RENAL CARE HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (dollars in thousands)

### 3. Debt Covenants

As of December 31, 1999 and March 31, 2000, the Company was not in compliance with certain formula-based covenants in its credit facilities. If the lenders do not waive this failure to comply, a majority of the lenders could declare an event of default, which would allow the lenders to accelerate payment of all amounts due under the credit facilities. Additionally, this noncompliance results in higher interest costs, and the lenders may require additional concessions from the Company before giving a waiver. In the event of default under the credit facilities, the holders of the convertible subordinated notes could also declare the Company to be in default. The Company is highly leveraged and would be unable to pay the accelerated amounts that would become immediately payable if default were declared. As a result of this non-compliance, all debt outstanding under the credit facility and the convertible subordinated notes as of December 31, 1999 and March 31, 2000 that is potentially due within one year has been reclassified from long-term debt to a current classification. Under these conditions, the Company is currently unable to draw additional amounts under the credit facilities.

The Company is currently in discussions with the lenders regarding obtaining a waiver of these violations or restructuring the credit facilities. Actions the Company has taken and is taking to ensure its ongoing ability to cover scheduled debt service include divestiture of operations outside the continental U.S., curtailment of new facility acquisitions and developments, improvements in billing and cash collections processes, increased management controls over expenditures, and evaluations of alternative capital sources, as well as pursuing debt restructuring with the current lenders. Prior to March 2000, the Company focused its attention primarily on those actions that would improve operating performance and cash flows, as well as filling key senior management positions. Given the progress made in these areas, the Company has now entered into more active discussions with its lenders for an acceptable restructuring arrangement. Management believes it is unlikely that an event of default will be declared because of the Company's substantial cash balance and because cash flows are expected to be sufficient to cover operating requirements and scheduled debt service through 2001.

Long-term debt is comprised of the following:

	March 31, 2000	December 31, 1999
-----	-----	-----
Credit facilities.....	\$ 947,737	\$ 959,610
Convertible subordinated notes, 7%, due 2009.....	345,000	345,000
Convertible subordinated notes, 5 5/8%, due 2006.....	125,000	125,000

Acquisition obligations and other notes payable..	18,829	21,482
Capital lease obligations.....	6,102	6,799
	-----	-----
	1,442,668	1,457,891
Less current portion and long-term debt potentially callable under covenant provisions..	(1,437,641)	(1,452,195)
	-----	-----
	\$ 5,027	\$ 5,696
	=====	=====

#### 4. Valuation estimates

During the fourth quarter of 1999, the Company announced its intention to sell its dialysis operations outside the continental United States and recorded an impairment loss of \$83,000 associated with the non-continental U.S. operations. Definitive agreements to sell substantially all of the Company's principal operations outside the continental U.S. were signed in January 2000, and more than 80% of the sales, in terms of proceeds and asset values, are currently expected to close by the third quarter of 2000. The sales are subject to required bank and regulatory approvals. Impairment and valuation losses were also recorded in the fourth quarter of 1999 for planned closures of facilities in the continental U.S. and for investments in third-party dialysis businesses.

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#### TOTAL RENAL CARE HOLDINGS, INC.

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (dollars in thousands)

Our assessment of and estimates for impairment and valuation losses recorded as of December 31, 1999 remain unchanged at this time. The 1999 impairment loss of \$83,000 recorded for our planned disposition of our operations outside the continental U.S. and valuation losses associated with investments in third-party dialysis businesses were based on estimates of final net sales values and net realizable values. The actual values may vary from these estimates. Additionally, not included in the 1999 impairment loss was a cumulative foreign currency translation loss of \$4,700 included in the Statement of Comprehensive Income that cannot be recognized in the Consolidated Statement of Income until actually realized with the completion of the related divestitures. Operating results for the non-continental U.S. will continue to be included in the Consolidated Statement of Income until the divestitures are completed.

#### 5. Contingencies

The Company's Florida-based laboratory subsidiary is the subject of a third-party carrier review relating to claims for Medicare reimbursement. The carrier has issued formal overpayment determinations in the amount of \$5,600 for the period from January 1995 to April 1996 and \$14,200 for the period from May 1996 to March 1998. The carrier has also suspended all payments of claims related to this laboratory since May 1998. The cumulative amount withheld was approximately \$34,000 as of March 31, 2000. Subsequent to March 31, 2000, the carrier notified the Company of the results of its review for the period April 1998 to August 1999. The carrier has alleged that \$16,100 of the withheld billings for the period April 1998 to August 1999 were not properly supported by the prescribing physician's medical justifications. The carrier has also informed the Company that it will be requesting additional billing records for the period from August 1999 to May 2000.

The Company is disputing the overpayment determinations and has provided supporting documentation of its claims. The Company has initiated the process of a formal review of each of the carrier's determinations. The first step in this formal review process is a hearing before a hearing officer at the carrier. The hearing regarding the initial review period from January 1995 to April 1996 was held in July 1999. In January 2000 the hearing officer issued a decision regarding the initial review period upholding the overpayment determination of \$5,600. The Company has filed an appeal to a federal administrative law judge. The hearing regarding the second review period from May 1996 to March 1998 was held in April 2000. The hearing officer has yet to issue a decision. No provisions or allowances have been recorded for this

matter. Any determination adverse to the Company could have an adverse impact on the Company's business, results of operations or financial condition.

Following the announcement on February 18, 1999 of the Company's preliminary results for the fourth quarter of 1998 and the full year then ended, several class action lawsuits were filed against the company and several of its officers in the U.S. District Court for the Central District of California. The lawsuits have been consolidated into a single action. The consolidated complaint alleges violations of the federal securities laws arising from allegedly false and misleading statements during a class period of March 11, 1997 to July 18, 1999 and seeks unspecified monetary damages. The primary allegations of this complaint are that the Company booked revenues at inflated amounts, failed to disclose that a material portion of accounts receivable were uncollectible, reported excessive non-Medicare revenues, billed for treatments that were never provided, failed to disclose accurately the basis for the suspension of payments to the Company's Florida-based laboratory subsidiary on Medicare claims, accounted for goodwill to overstate income, and manipulated the value of intangible assets. On January 24, 2000, all defendants responded to this complaint by filing a motion to dismiss. The motion is set to be heard on August 7, 2000, and all discovery is stayed pending the court's hearing and decision on the motion. Management believes that all of the claims are without merit. It is anticipated that the attorneys' fees and related costs of defending these lawsuits will be covered primarily under insurance policies. Any determination adverse to the Company could have an adverse impact on the Company's business, results of operations, cash flows or financial condition.

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# TOTAL RENAL CARE HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued) (dollars in thousands)

In addition, TRCH is subject to claims and suits in the ordinary course of business for which the Company is believed to be covered by insurance. Management believes that the ultimate resolution of these additional pending proceedings, whether the underlying claims are covered by insurance or not, will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

### 6. Financial information for 5 5/8% convertible subordinated notes

Prior to the merger with Renal Treatment Centers, Inc. (RTC) in 1998, RTC had issued \$125,000,000 of 5 5/8% convertible subordinated notes due 2006. These notes are convertible, at the option of the holder, at any time after August 12, 1996 through maturity, unless previously redeemed or repurchased, into common stock at a conversion price of \$25.62 principal amount per share, subject to certain adjustments. These notes are redeemable at our option on at least 15 and not more than 60 days' notice as a whole or, from time to time, in part at redemption prices ranging from 103.94% to 100% of the principal amount thereof, depending on the year of redemption, together with accrued interest up to but excluding the date fixed for redemption. TRCH has guaranteed these notes.

The following is summarized financial information of RTC:

	March 31, 2000	December 31, 1999
Cash and cash equivalents.....	\$ 4,298	\$ 4,118
Accounts receivable, net.....	106,058	115,442
Other current assets.....	9,986	11,946
Total current assets.....	120,342	131,506
Property and equipment, net.....	86,843	86,572
Intangible assets, net.....	341,875	346,756
Other assets.....	1,198	167



Total assets.....	\$550,258	\$565,001
	=====	=====
Current liabilities, principally intercompany.....	\$248,191	\$274,144
Long-term debt potentially callable under covenant provisions.....	125,000	125,000
Other long-term liabilities.....	1,407	1,504
Stockholder's equity.....	175,660	164,353
	-----	-----
Total liabilities and stockholders' equity.....	\$550,258	\$565,001
	=====	=====

	Three months ended March 31,	
	2000	1999
	-----	-----
Net operating revenues.....	\$124,734	\$120,402
Total operating expenses.....	114,427	114,240
	-----	-----
Operating income (loss).....	10,307	6,162
Interest expense, net.....	1,680	1,802
	-----	-----
Income before income taxes.....	8,627	4,360
Income taxes.....	3,424	1,665
	-----	-----
Net income.....	\$ 5,203	\$ 2,695
	=====	=====

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Forward-looking statements

This Form 10-Q contains statements that are forward-looking statements within the meaning of the federal securities laws. These included statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "believe" and similar language. These statements involve known and unknown risks, including risks resulting from economic and market conditions, the regulatory environment in which we operate, competitive activities and other business conditions, and are subject to uncertainties and assumptions set forth elsewhere in this Form 10-Q. Our actual results may differ materially from results in these forward-looking statements. We base our forward-looking statements on information currently available to us, and we assume no obligation to update these statements.

### Results of operations

During the fourth quarter of 1999, the Company announced its intention to sell its dialysis operations outside the continental United States as an important first step in reducing its debt burden and allowing management to focus its attention on the core operations in the continental U.S. Definitive agreements to sell the principal operations outside the U.S. were signed in January 2000. More than 80% of the divestitures, in terms of proceeds and asset values, are currently expected to close by the third quarter of 2000. The sales are subject to required bank and regulatory approvals.

Operating results for the non-continental U.S. operations, which the Company has committed to selling or otherwise discontinuing, were as follows (in millions):

#### Non-continental U.S. operations

Three months

	ended March 31,	
	2000	1999
Net operating revenues.....	\$ 33	\$ 29
Operating expenses:		
Dialysis and lab facilities.....	25	24
General and administrative.....	2	2
Depreciation and amortization.....	3	3
Provision for uncollectible accounts.....	1	1
	31	30
Operating income (loss).....	\$ 2	\$ (1)
	=====	=====

Consolidated operating results, excluding the non-continental U.S. operations to be divested and excluding impairment losses in the fourth quarter of 1999, were as follows (in millions):

Continental U.S. operations

	1st Quarter		4th Quarter	
	2000	1999	2000	1999
Net operating revenues.....	\$339	100%	\$323	100%
Operating expenses:				
Dialysis and lab facilities.....	235	69%	206	64%
General and administrative.....	30	9%	22	7%
Depreciation and amortization.....	24	7%	23	7%
Provision for uncollectible accounts.....	12	4%	9	3%
	301	89%	260	81%
Operating income (loss)--excluding impairment losses.....	\$ 38	11%	\$ 63	19%
	=====	=====	=====	=====

Because all operations outside the continental U.S. are being divested, the non-continental U.S. operating results are excluded from the revenue and cost trends discussed below.

Net operating revenues for the continental U.S. operations were \$339 million for the first quarter of 2000, or approximately 5% higher than in the first quarter of 1999. The increase was principally attributable to a nearly 9% increase in the number of equivalent hemodialysis treatments, offset by a lower average revenue rate per treatment. Approximately half of the increase in the number of treatments represented internal growth, with the balance attributable to new facilities either acquired or newly opened. The average dialysis revenue rate per treatment (excluding lab and pharmacy revenue and management fee income) was \$247 for the first quarter of 2000, compared with \$253 for the same period of 1999.

First quarter 2000 operating revenues were at approximately the same level as in the fourth quarter of 1999. The number of treatments in the first quarter were down approximately 1.6%, principally because of one less treatment day in the quarter. Recent sales and closures of certain facilities accounted for the balance of the reduction in treatments in the first quarter of 2000. Net dialysis revenue per treatment increased approximately \$2 from fourth quarter 1999 to first quarter of 2000, or approximately 1%. The first quarter 2000 average revenue rate reflects a 1.2% increase in the Medicare composite reimbursement rate that became effective on January 1, 2000.

Lab, pharmacy and management fee income represented approximately 4% of total continental U.S. operating revenues for both the first quarter of 2000 and the fourth quarter of 1999, compared with approximately 5.5% for the first quarter of 1999.

Facility operating expenses were approximately 69% of operating revenues for continental U.S. operations in the first quarter of 2000, compared with 70% in the fourth quarter of 1999 and 64% in the first quarter of 1999. On a per treatment basis, first quarter 2000 facility operating expenses were essentially the same as in the prior quarter, and averaged approximately \$8 per treatment higher than in the first quarter of 1999. The higher average cost per treatment is primarily attributable to higher labor and medical supply costs. The first quarter 2000 facility operating costs include a net price increase in erythropoietin, or EPO, a dialysis pharmaceutical that represents a material cost component. The EPO price increase became effective on March 1, 2000, and is expected to result in higher ongoing dialysis operating expense of up to \$2 million per quarter.

General and administrative expense was approximately 9% of operating revenues for continental U.S. operations in the first quarter of 2000, compared with 7% in the first quarter of 1999. Nearly half of the increase over the first quarter of 1999, measured as a percentage of revenue, was attributable to the lower average revenue rate per treatment in the first quarter of 2000. Staffing levels and compensation expense accounted for most of the remainder of the increase in general and administrative expense. General and administrative expense for the fourth quarter of 1999 was approximately 12% of operating revenues, reflecting higher than normal expense levels primarily for special retention and severance compensation costs and professional consulting fees.

The provision for uncollectible accounts receivable for the first quarter of 2000 was approximately 3.5% of operating revenues, compared with approximately 3% for the same period for 1999. Other than the uncertainty associated with our Florida lab receivables, as discussed below, we believe the level of the provision for uncollectible accounts receivable recorded in the first quarter of 2000 is indicative of the level that will be required for the balance of the year. Collection trends associated with current billings continue to track as anticipated.

Debt expense of \$33 million for the first quarter of 2000 was approximately \$10 million higher than the same period of 1999 due to higher effective interest rates, including the higher rates in effect because of the noncompliance with debt covenants as discussed below, and higher debt balances.

Our assessment of and estimates for impairment and valuation losses recorded as of year-end 1999 remain unchanged at this time. The year-end impairment loss of \$83 million recorded for our planned disposition of our operations outside the continental U.S. and valuation losses associated with investments in third-party dialysis businesses were based on estimates of final net sales values and net realizable values. The actual values may vary from these estimates. Additionally, not included in the year-end impairment loss was a cumulative foreign

currency translation loss of \$4.7 million previously included only in the statement of comprehensive income that cannot be recognized in the regular income statement until actually realized with the completion of the related divestitures. More than 80% of the divestitures, in terms of proceeds and asset values, are currently expected to close by the third quarter of 2000. The sales are subject to required bank and regulatory approvals. Operating results for the non-continental U.S. will continue to be included in the Consolidated Statement of Income until the divestitures are completed.

Other potential future losses or write-offs include the write-off of deferred financing costs associated with long-term debt that is refinanced or otherwise restructured and the write-off of a \$2.8 million deferred tax asset associated with stock option expense recognized for medical directors to the extent that such options are cancelled.

Based on current conditions and recent experience, our current projections for the year 2000 are for normal operating earnings before non-cash depreciation and amortization expense, debt expense and taxes to be in the

range of \$240 million to \$260 million for our ongoing operations in the continental U.S. These projections assume minimal acquisitions, an internal annual growth rate in the number of dialysis treatments of approximately 5%, limited opportunities to improve the mix of non-Medicare treatments, and cost growth trends for medical supplies and labor costs consistent with recent years. These and other underlying assumptions involve significant risks and uncertainties, and actual results may vary significantly from these current projections. Refer to the liquidity and capital resources discussion, contingencies discussion, and the risk factors included elsewhere in this Form 10-Q regarding additional risks and uncertainties that may impact these forward-looking estimates.

#### Liquidity and capital resources

As of December 31, 1999 and March 31, 2000, the Company was not in compliance with certain formula-based covenants in the credit facilities. If the lenders do not waive this failure to comply, a majority of the lenders could declare an event of default, which would allow the lenders to accelerate payment of all amounts due under the credit facilities. Additionally, this noncompliance results in higher interest costs, and the lenders may require additional concessions from the Company before giving a waiver. In the event of default under the credit facilities, the holders of the convertible subordinated notes could also declare the Company to be in default. The Company is highly leveraged and would be unable to pay the accelerated amounts that would become immediately payable if a default were declared. As a result of this non-compliance, all debt outstanding under our credit facilities and the convertible subordinated notes as of December 31, 1999 and March 31, 2000 that is potentially due within one year has been reclassified from long-term debt to a current classification. Under these conditions, we are currently unable to draw additional amounts under the credit facilities.

We are currently in discussions with the lenders regarding obtaining a waiver of these violations or restructuring our credit facilities. Actions we have taken and are taking to ensure our ongoing ability to cover scheduled debt service include divestiture of operations outside the continental U.S., curtailment of new facility acquisitions and developments, improvements in billing and cash collections processes, increased management controls over expenditures, and evaluations of alternative capital sources, as well as pursuing debt restructuring with the current lenders. Prior to March 2000, we focused our attention primarily on those actions that would improve operating performance and cash flows, as well as filling key senior management positions. Given the progress made in these areas, we have now entered into more active discussions with our lenders regarding an acceptable restructuring arrangement. We believe it is unlikely that an event of default will be declared because of the company's substantial cash balance and because cash flows are expected to be sufficient to cover operating requirements and scheduled debt service through 2001.

The cash balance at March 31, 2000 was \$150 million, an increase of \$42 million during the quarter. The principal positive cash flow items included earnings of \$33 million adjusted for non-cash items, a \$24 million reduction in accounts receivable, a \$26 million reduction in income taxes receivable, and \$15 million from divestitures. The principal net cash outflows included a \$22 million reduction in accounts payable, \$17 million in net capital asset additions, and \$15 million in long-term debt payments.

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The continental U.S. accounts receivable balance at March 31, 2000, exclusive of the Florida lab withhold balance of approximately \$34 million, was \$277 million, or a reduction of \$34 million during the quarter. The first quarter continental U.S. accounts receivable balance excluding the Florida lab withhold represents approximately 75 days of revenue, an improvement of approximately 9 days for the quarter.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in our market risk exposure from that reported in our Form 10-K for the fiscal year ended December 31, 1999.

#### RISK FACTORS

In addition to the other information set forth in this Form 10-Q, you

should note the following risks related to our business.

If our lenders accelerate payment of the amounts we owe them, we could become insolvent or be forced to file for bankruptcy.

We are not in compliance with several financial covenants in our credit facilities. Due to our failure to comply with these covenants a majority of our lenders could declare us in default under our credit facilities, which would allow them to accelerate payment of all amounts we owe them. If they accelerated payment, it would force us to file for bankruptcy or reorganize our business. In addition, we are paying penalties of approximately \$12 million annually to our banks for being out of compliance with these covenants. We cannot predict what actions our lenders will take while we are out of compliance with these covenants.

We may not have sufficient cash flow from our business to pay our debt.

The amount of our outstanding debt is large compared to our cash flows and the net book value of our assets. We have substantial repayment obligations under our outstanding debt. As of March 31, 2000 we had:

- . Total consolidated debt of approximately \$1.443 billion, including \$948 million outstanding under our credit facilities;
- . Shareholders' equity of approximately \$331 million; and
- . A ratio of earnings to fixed charges of 1.2:1

The following chart shows our aggregate interest and principal payments due on all of our currently outstanding debt for each of the next five fiscal years, assuming our lenders do not accelerate payment of the amounts due under our credit facilities. Also, because the interest rate under our credit facilities is based upon a variable market rate plus a margin determined by the amount of debt we incur relative to our earnings before income taxes, depreciation and amortization, the amount of these interest payments could fluctuate in the future. In addition, as a result of our failure to comply with several financial covenants, our lenders could accelerate payment of substantially all of these amounts.

	Scheduled payments	
	Interest	Principal
	-----	
	(in thousands)	

For the year ending December 31:

2000.....	\$135,779	\$ 26,585
2001.....	135,255	4,876
2002.....	131,931	109,702
2003.....	110,538	466,986
2004.....	72,784	4,217

Due to the large amount of these principal and interest payments, we may not generate enough cash from our operations to meet these obligations.

The large amount and terms of our outstanding debt may prevent us from taking actions we would otherwise consider in our best interest.

Our credit facilities contain numerous financial and operating covenants that limit our ability, and the ability of most of our subsidiaries, to engage in activities such as incurring additional senior debt, disposing of our assets, or repurchasing our common stock. These covenants require that we meet financial ratios including interest coverage, net worth and leverage tests.

Additionally, we are highly leveraged and we are not in compliance with our covenants. We may be required to renegotiate the terms of our credit facilities on terms that are more unfavorable, including: higher interest rates, shorter maturities or more restrictive borrowing terms; all of which may have an adverse impact on our business prospects and our financial

results. Our lenders may require additional concessions from us before giving us a waiver or providing us with a new credit facility.

Our current level of debt and the limitations our credit facilities impose on us could have other important consequences, including:

- . Based upon the preceding table, we will have to use much of our cash flow, approximately \$162 million in 2000 and \$140 million in 2001, for scheduled debt service rather than for our operations;
- . We may not be able to increase our borrowings under the credit facilities or obtain other additional debt financing for future working capital, capital expenditures, acquisitions or other corporate purposes; and
- . We could be less able to take advantage of significant business opportunities, including acquisitions, and react to changes in market or industry conditions.

If we do not further improve our internal systems and controls soon, our revenues, cash flows and net income may be adversely affected.

We have experienced rapid growth in the last five years, especially in 1998 and the first half of 1999, as a result of our business strategy to acquire, develop and manage a large number of dialysis centers. This historical growth and business strategy has led to a number of adverse consequences, including:

- . Our billing and collection processes, systems and personnel were at times inadequate to collect all amounts owed to us for services we have rendered, resulting in a failure to achieve expected cash flow and significant charges for uncollectible accounts receivable;
- . A need for additional management, administrative and clinical personnel to manage and support our expanded operations. We may not be able to attract and retain sufficient additional personnel to meet these needs;
- . Our assessment of the requirements of our growth on our information systems underestimated our needs, and we have spent, and may continue to spend, substantial amounts to enhance and replace our information systems;
- . Our expanded operations required cash expenditures in excess of the cash available to us after paying our debt service obligations and required us to increase our debt balances;
- . We inaccurately assessed the historical and projected results of operations of some acquired businesses, which caused us to overpay for these acquisitions; and
- . In retrospect we have not integrated acquired facilities as quickly or smoothly as we expected, which prevented us from achieving the results of operations expected for these acquired facilities.

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If we fail to improve our performance in these areas, it will have a negative impact on our cash flow and could impact our ability to meet our substantial debt obligations.

If the percentage of our patients that pay at or near our list prices declines, then our revenues, cash flows and net income would be substantially reduced.

Approximately 41% of our net operating revenues in 1999 was generated from patients who had domestic private payors as the primary payor. A minority of these patients have insurance policies that reimburse us at or near our list prices, which are substantially higher than Medicare rates. Domestic private payors, particularly managed care payors, have become more aggressive in demanding contract rates approaching or at Medicare reimbursement rates. We believe that the financial pressures on private payors to decrease the rates at which they reimburse us will continue to increase. If the percentage of patients who have insurance that reimburses us at or near our list prices changes significantly, it will have a material impact on our revenues, cash flows and net income.

Future declines, or the lack of further increases, in Medicare reimbursement rates could substantially decrease our net income and cash flows.

Approximately 54% of our net operating revenues in 1999 were generated from patients who had Medicare as the primary payor. We are reimbursed for dialysis services primarily at fixed rates established in advance under the Medicare ESRD program. Unlike many other Medicare programs, the Medicare ESRD program has not provided periodic inflation increases in its reimbursement rates. Congress recently enacted two increases of 1.2% each, effective January 1, 2000 and January 1, 2001, to the Medicare composite reimbursement rate for dialysis. These were the first increases since 1991, and are significantly less than the cumulative inflation since 1991. Increases in operating costs that are subject to inflation, such as labor and supply costs, have occurred and are expected to continue to occur without a compensating increase in reimbursement rates. In addition, if Medicare should begin to include in its composite reimbursement rate any ancillary services that it currently reimburses separately, our revenue would decrease to the extent there was not a corresponding increase in that composite rate. We cannot predict the nature or extent of future rate changes, if any.

HHS has recommended, and the Clinton administration has included in its fiscal year 2001 budget proposal to the Congress, a 10% reduction in Medicare reimbursement for erythropoietin, or EPO. We cannot predict whether Congress will enact this proposal, or whether other future rate or reimbursement method changes will be made. Approximately 14% of our net operating revenues in 1999 was generated from EPO reimbursement through Medicare and Medicaid programs. Consequently, any reduction in the rate of EPO reimbursement through Medicare and Medicaid programs could materially reduce our revenues, cash flows and net income.

Medicare separately reimburses us for other outpatient prescription drugs that we administer to dialysis patients at the rate of 95% of the average wholesale price of each drug. The Clinton administration has also included in its fiscal year 2001 budget proposal to the Congress a reduction in the reimbursement rate for outpatient prescription drugs to 83% of the average wholesale price. We cannot predict whether Congress will enact this proposal, or whether other reductions in reimbursement rates for outpatient prescription drugs will be made. If such changes are implemented, they could have a material adverse effect on our revenues, cash flows and net income.

If Medicare changes its ESRD program to a capitated reimbursement system, our revenues, cash flows and profits could be materially reduced.

Under the current Medicare demonstration project, Medicare is paying managed care plans a capitated rate equal to 95% of Medicare's current average cost of treating dialysis patients. Under a capitated plan we or managed care plans would receive a fixed periodic payment for servicing all of our Medicare-eligible ESRD patients regardless of fluctuations in the number of services provided in that period or possibly even the number of patients treated. If HCFA considers the pilot program successful, HCFA or Congress could implement such a capitated program more broadly or could lower the average Medicare reimbursement for dialysis.

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Over the long-term, we expect the profit margins in the dialysis industry to decline, which will have a negative impact on our net income and cash flows.

During the past few years, industry operating margins have increased due to

- . Increased provision of ancillary services, particularly the administration of EPO;
- . The extension of the period for which private payors remain the primary insurer, until Medicare becomes the primary insurer; and
- . Pricing increases for private pay patients.

We believe that some of these trends have reached a plateau, particularly the increases in ancillary services intensity and the additional profits from the extension of the private insurance coverage period. There are also market forces that may result in long-term industry margin compression. These forces include increases in labor and supply costs at a faster rate than

reimbursement rate increases, the potential for Medicare reimbursement cuts for ancillary services and an inability to achieve future pricing increases for both private pay and managed care patients.

If our assumptions regarding the beneficial life of our goodwill prove to be inaccurate, or subsequently change, our current earnings may be overstated and future earnings also may be affected.

Our balance sheet contains an amount designated as "goodwill" that represents 44% of our assets and 268% of our shareholders' equity at March 31, 2000. Goodwill arises when an acquirer pays more for a business than the fair value of the tangible and separately measurable intangible net assets. Generally accepted accounting principles require the amortization of goodwill and all other intangible assets over the periods benefited. The current average useful life for our goodwill is 35 years. We have determined that most acquisitions after December 31, 1996 will continue to provide a benefit to us for no less than 40 years after the acquisition. In making this determination, we have reviewed with our independent accountants the significant factors that we considered in arriving at the consideration we paid for, and the expected period of benefit from, acquired businesses.

We continuously review the appropriateness of the amortization periods we are using and change them as necessary to reflect current expectations. This information is also reviewed with our independent accountants. If the factors we considered, and which give rise to a material portion of our goodwill, result in an actual beneficial period shorter than our determined useful life, earnings reported in periods immediately following some acquisitions would be overstated. In addition, in later years, we would be burdened by a continuing charge against earnings without the associated benefit to income. Earnings in later years could also be affected significantly if we subsequently determine that the remaining balance of goodwill has been impaired.

Interruption in the supply of, or cost increases in, EPO could materially reduce our net income and cash flows and affect our ability to care for our patients.

In the future, Amgen may be unwilling or unable to supply us with EPO. Additionally, Amgen is the sole supplier of EPO, and may unilaterally decide to increase its price for EPO. For example, Amgen unilaterally decided to increase its price for EPO by 3.9% effective March 1, 2000. Interruptions of the supply of EPO or additional increases in the price we pay for EPO could have a material adverse effect on our financial condition as well as our ability to provide appropriate care to our patients.

The cost of our medical supplies on a per treatment basis has been increasing, and if this trend continues it could impact our net income and cash flows.

During the past two years we have seen an increase in the cost per treatment of our medical supplies due to an increase in our utilization of supplies and increases in pricing from suppliers. Two of our major competitors are also major providers of medical supplies and equipment and our largest supplier, Fresenius, is also the largest provider of dialysis services in the world. The number of suppliers of dialysis-specific medical supplies has

declined recently, due to consolidation among these suppliers. If we are not able to manage our medical supply utilization better or to achieve cost savings from our suppliers, we may have a reduction in our net income and cash flows due to higher medical supply costs.

If we sell our non-continental U.S. operations for less than we expect, our impairment loss of \$83 million recorded in the fourth quarter of 1999 may be understated.

We recently entered into agreements to sell most of our operations outside of the continental U.S. to a competitor for approximately \$160 million in proceeds, subject to final closing adjustments. We recorded a charge of \$83 million for the impairment of the value of our non-continental operations in the fourth quarter of 1999, which includes the cost of buying out minority interests and direct transaction costs of completing the sales. If we do not complete the sales as we anticipate, then our actual losses may prove higher than the recorded charge. The agreements are conditioned on the consent of our lenders under our credit facilities, regulatory approvals and other closing



conditions.

If we fail to adhere to all of the complex government regulations that apply to our business, we could incur substantial fines or be excluded from participating in government reimbursement programs.

Our dialysis operations are subject to extensive federal, state and local government regulations. Any of the following could adversely impact our revenues:

- . Suspension of payments from government programs;
- . Loss of required government certifications;
- . Loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare ESRD Program and Medicaid programs; and
- . Loss of licenses required to operate health care facilities in some of the states in which we operate.

The regulatory scrutiny of healthcare providers, including dialysis providers, has increased significantly in recent years. For example, the Office of Inspector General of HHS has reported that it recovered \$1.2 billion in fiscal year 1997 and \$480 million in fiscal year 1998 from health care fraud investigations. Also, in January 2000 one of our competitors entered into a \$486 million settlement as a result of an Office of Inspector General of HHS investigation into some of its practices. We expect this regulatory scrutiny to continue, if not increase.

We may never collect the revenues from the payments suspended as a result of a third-party carrier review of our laboratory subsidiary.

Our Florida-based laboratory subsidiary is the subject of a third-party carrier review relating to claims the laboratory submitted for Medicare reimbursement. In May 1998, the carrier suspended all further Medicare payments to this laboratory. Medicare revenues from this laboratory represent approximately 2% of our net revenues. The suspension of payments relates to all payments due after the suspension started, regardless of when the laboratory performed the tests. From the beginning of the suspension through March 31, 2000, the carrier had withheld approximately \$34 million, which has adversely affected our cash flow. We may never recover the amounts withheld, for which no reserves have been established.

Our failure to comply with federal and state fraud and abuse statutes could result in sanctions.

Neither our arrangements with the medical directors of our facilities nor the minority ownership interests of referring physicians in some of our dialysis facilities meet all of the requirements of published safe harbors to the anti-kickback provisions of the Social Security Act and similar state laws. These laws impose civil and criminal sanctions on anyone who receives or makes payments for referring a patient for any service reimbursed by Medicare, Medicaid or similar federal and state programs. Arrangements within published safe harbors are deemed not to violate these provisions. Enforcement agencies may subject arrangements that do not fall within a

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safe harbor to greater scrutiny. If we are challenged under these statutes, we may have to change our relationships with our medical directors and with referring physicians holding minority ownership interests.

The laws of several states in which we do business prohibit a physician from making referrals for laboratory services to entities with which the physician, or an immediate family member, has a financial interest. We currently operate a large number of facilities in these states, which account for a significant percentage of our business. These state statutes could apply to laboratory services incidental to dialysis services. If so, we may have to change our relationships with referring physicians who serve as medical directors of our facilities or hold minority interests in any of our facilities.

Forward-looking statements

This Form 10-Q contains statements that are forward-looking statements within the meaning of the federal securities laws. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "believe" and similar language. These statements involve known and unknown risks, including risks resulting from economic and market conditions, the regulatory environment in which we operate, competitive activities and other business conditions, and are subject to uncertainties and assumptions set forth elsewhere in this Form 10-Q. Our actual results may differ materially from results anticipated in these forward-looking statements. We base our forward-looking statements on information currently available to us, and we assume no obligation to update these statements.

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## PART II

### OTHER INFORMATION

#### Item 1. Legal Proceedings

The information in Note 5 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report is incorporated by this reference in response to this item.

Items 2, 3, 4 and 5 are not applicable.

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits

12.1 Ratio of earnings to fixed charges.X  
Financial Data Schedule--three months ended March 31, 2000 and  
27.1 1999.X

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X Filed herewith.

##### (b) Reports on Form 8-K

None.

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### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOTAL RENAL CARE HOLDINGS, INC.

By: /s/ Gary W. Beil  
Gary W. Beil  
Vice President and Controller\*

Date: May 12, 2000

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\* Mr. Beil has signed both on behalf of the registrant as a duly authorized officer and as the registrant's chief accounting officer.

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### INDEX TO EXHIBITS

Exhibit

Number	Description
-----	-----
12.1	Ratio of earnings to fixed charges.X
27.1	Financial Data Schedule--three months ended March 31, 2000 and 1999.X

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X Filed herewith.

## EXHIBIT 12.1

## TOTAL RENAL CARE HOLDINGS, INC.

## RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. Earnings is defined as pretax income from continuing operations adjusted by adding fixed charges and excluding interest capitalized during the period. Fixed charges means the total of interest expense and amortization of financing costs, and the estimated interest component of rental expense on operating leases.

	Three months ended March 31,	Year ended December 31,				
	2000	1999	1998	1997	1996	1995
(in thousands, except for ratio data)						
Income (loss) before income taxes, extraordinary items and cumulative effect of a change in accounting principle.....	\$ 7,549	\$(181,826)	\$ 48,641	\$ 81,178	\$54,563	\$37,141
Fixed charges:						
Interest expense and amortization of debt issuance costs and discounts on all indebtedness.....	33,165	110,797	84,003	29,082	13,670	12,921
Interest portion of rental expense.....	4,577	17,501	12,992	8,196	5,301	3,346
Total fixed charges.....	37,742	128,298	96,995	37,278	18,971	16,267
Earnings (loss) before income taxes, extraordinary items, cumulative effect of a change in accounting principle and fixed charges.....	\$45,291	\$ (53,528)	\$145,636	\$118,456		
	\$73,534	\$53,408				
Ratio of earnings to fixed charges.....	1.20	(a)	1.50	3.18	3.88	3.28

(a) Due to the Company's loss in 1999, the ratio coverage was less than 1:1. The Company would have had to generate additional earnings of \$182 million to achieve a coverage of 1:1.

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